



Information for David Lerner Associates, Inc. Clients about The Reserve Funds

Most Recent News

- **Important Information Bulletin Concerning The Reserve Funds: Primary Fund**

On January 26, 2010, the Reserve Funds issued a press release announcing that it will begin its sixth distribution to Primary Fund shareholders on or about January 29, 2010. The distribution, in the amount of approximately \$3.4 billion, represents approximately 95% of the Fund's remaining asset value of \$3.56 billion as of the close of business on January 21, 2010. Including this sixth distribution, \$50.5 billion, or approximately 99% of Fund assets as of the close of business on September 15, 2008, will have been returned to investors. (Please see below for further details and consult the Reserve Funds' website at www.ther.com for further details).

Events Concerning The Reserve Funds

Background

For over 20 years, David Lerner Associates, Inc. has utilized the services of The Reserve Funds to provide a money market vehicle for clients to invest excess cash. The Reserve Funds, credited with inventing the money market fund, enjoyed for many decades the reputation of being one of the finest families of money market funds available.

The Reserve Funds are an independent mutual fund complex that is not affiliated with David Lerner Associates, Inc. The Reserve Funds consist of at least twenty-three different money market funds. For many years The Reserve Funds have provided stable, conservative returns for investors across the country. (Source: The Reserve Funds Prospectus dated September 28, 2007, updated through September 18, 2008).

Chronology of Events

- On September 15, 2008, Lehman Brothers Holding, Inc. announced that it was filing a petition under Chapter 11 of the bankruptcy code for bankruptcy protection. The following day, The Reserve Fund announced that due to the Chapter 11 filing by Lehman Brothers, it was valuing its Primary Fund's holdings in Lehman Brothers debt securities (face value of \$785 million) at zero. As a result, the Net Asset Value ("NAV") of the Primary Fund effective at 4:00 pm on September 16, 2008 dropped below \$1.00 per share. In addition, The Reserve Fund announced that the proceeds of redemptions from the Primary Fund would not be transmitted to the redeeming investor for up to seven

days. Certain, limited exceptions from the seven-day redemption period were afforded for debit card transactions, Automated Clearinghouse transactions and check transactions written against ones own account provided that such transactions from an investor, individually or in the aggregate, does not exceed \$10,000.00. (Source: The Reserve Funds Press Release dated September 16, 2008)

- On September 18, 2008, The Reserve Funds announced that it would no longer offer any new investments into any of its funds (except through automatic dividend reinvestment), and stated that it would delay transmission of the proceeds from redemptions of all of its money market funds for up to seven days -- again, with certain exceptions for debit card transactions, Automated Clearinghouse transactions and check transactions written against ones own account provided that such transactions from an investor, individually or in the aggregate, does not exceed \$10,000.00.
- On Friday, September 19, 2008, The Reserve Funds announced that it had filed an application with the Securities and Exchange Commission (“SEC”) for an Order to suspend all rights of redemption from the Primary Fund and one other of its funds to postpone the date of payment of redemption proceeds for a period longer than seven days. The Reserve Funds stated that it had requested the Order because of “the extraordinary market conditions of the past several days,” which it said “contributed to unprecedented requests for redemptions for each of these two funds.” The Reserve Funds said that it had received requests for redemption of approximately \$60 Billion from the Primary Fund and said that, with the continued significant illiquidity in the markets, the funds’ investment adviser was unable to dispose of securities to fund redemptions without impairing the net asset value of each fund. The Reserve Fund’s application included a plan for the orderly liquidation of each fund’s assets to meet redemption requests and for the appropriate payment to each fund’s shareholders. (Source: The Reserve Funds Press Release dated September 19, 2008 and SEC Order dated September 22, 2008).

Further, on September 19, 2008, a federal court in Minnesota issued a temporary restraining order (“TRO”) restraining, among others, the Primary Fund and The Reserve Management Company, Inc., the investment manager for the Primary Fund, from honoring any and all redemption requests, except for certain requests, i.e., debit card transactions, Automated Clearinghouse transactions and check transactions written against ones own account provided that such transactions from an investor, individually or in the aggregate, does not exceed \$10,000.00. (Source: Temporary Restraining Order dated September 19, 2008 ((U.S.D.C. of Minnesota)) The federal court complaint alleged that prior to The Reserve Fund’s public announcement of its financial difficulties due to the Lehman Brother’s bankruptcy, The Reserve Funds and its agents secretly notified a number of major institutional investors in the Primary Fund that the Primary Fund had material exposure to securities issued by Lehman Brothers and that the Lehman Brother’s bankruptcy would have a severe negative consequence on the value of the Primary Fund’s portfolio, (Source: Verified Complaint filed by Ameriprise dated September 19, 2008 (U.S.D.C. of Minnesota))

Also on September 19, 2008, the U.S. Treasury Department announced a guaranty program for money market funds designed to insure the holdings of retail and institutional investors in eligible money market funds. On September 21, 2008, the U.S. Treasury Department provided further details on the Guaranty Program for Money

Market Funds. Among other things, Treasury stated that the temporary guaranty program will be designed to provide coverage to shareholders for amounts held by them in eligible money market funds as of the close of business on September 19, 2008. (Source: Treasury Department Press Releases dated September 19 and 21, 2008 at <http://www.treasury.gov>)

- On September 22, 2008, the SEC issued an Order which in effect approves The Reserve Fund's request to temporarily suspend all rights of redemption in the Primary Fund and the other fund. In its Order the SEC stated that the temporary suspension of the right of redemption and the postponement of payment for shares is necessary for the protection of the security holders. (Source: The Reserve Funds Press Release dated September 22, 2008 and SEC Order dated September 22, 2008).
- On September 23, 2008, The Reserve Funds issued clarification of the purpose of the order issued by the SEC on September 22. The Reserve Funds stated that "[t]he SEC's order is intended to allow us to fulfill all outstanding redemption orders and ensure an orderly sale process that seeks to obtain best pricing for the interest of shareholders and integrity of the funds' NAVs." The Reserve Funds also stated that they "anticipate that the SEC order will remain in effect until sufficient liquidity returns to the markets." (Source: The Reserve Funds Press Release dated September 23, 2008).
- On September 29, 2008, The Reserve Funds announced that it voted to liquidate the assets of The Primary Fund and to make a \$20 billion pro rata cash distribution on or about October 13, 2008 to all investors in The Primary Fund as of the close of business on September 15, 2008, including those investors that have submitted redemption orders to date that have not been funded. The pro rata cash distribution to non-redeeming shareholders will constitute an involuntary redemption of Fund shares. The Reserve Funds stated that it is working diligently with the SEC to develop a plan to distribute the balance of The Primary Fund's assets but cannot currently estimate when additional distributions to investors will be made. (Source: The Reserve Funds Press Release dated September 29, 2008)

Also on September 29, 2008, the U.S. Treasury Department announced the opening of its Temporary Guarantee Program for Money Market Funds. The temporary guarantee program will provide coverage to shareholders for amounts held in participating and eligible money market funds as of the close of business on September 19, 2008. Among other things, Treasury stated that the temporary guarantee program will exist for three months with the Secretary having the option to renew the program, and that each money market fund choosing to sign-up for the program must do so by midnight October 8, 2008. (Source: Treasury Department Press Release dated September 29, 2008).

- On September 30, 2008, The Reserve Funds provided information clarifying why the planned \$20 billion distribution cannot be made until on or about October 13th. The Reserve Funds stated that "the two-week time frame for the initial distribution is necessary to ensure an orderly pro-rata distribution. Money market management systems, including those for the Fund, are programmed to accommodate a constant \$1.00 NAV. Making a distribution to holders that have made redemption requests since September 15, 2008 necessitated a series of system modifications designed to ensure an accurate and equitable distribution of funds."

The Reserve Funds went on to say that “this process is being undertaken to ensure that on the day of the distribution, the Fund will reflect appropriate investor balance information. This balance takes into account an investor’s opening balance as of September 15, 2008, less any redemption transactions (check, debit card, ACH) that settled after September 15, 2008, plus any purchases through dividend reinvestment executed between September 15 and September 17, 2008. Additionally, a liquidation management system is being developed to track and maintain the payment status of all investors allowing for accurate, future payments to be made at such time the final distribution plan is approved.”

In addition, the Reserve Funds stated “this model also allows check, debit card and ACH transactions to continue until the final liquidation date and ensures appropriate tracking of income to the Fund, which will be distributed as part of the final liquidation payment. The Fund cannot currently estimate when additional distributions to investors will be made. When the plan is finalized, it will be made available on our website.”

(Source: The Reserve Funds Press Release dated September 30, 2008).

- On October 1, 2008, The Reserve Funds announced that on September 30, 2008 it had voted to liquidate the assets of U.S. Government Fund. The Reserve Funds stated that it is working diligently and in conjunction with the SEC to develop a plan to distribute the assets of the Government Fund in a fair and equitable manner. The Reserve Funds stated that “it cannot currently estimate when distributions to investors will be made. However, the Board and the Fund’s adviser are acting as expeditiously as markets permit to restore liquidity to investors. As developments occur, every effort will be made to communicate them to investors.”

The Reserve Funds added that: “beginning October 2, 2008, we will post on our website each day the holdings of the Government Fund as of the close of business at the end of the previous business day. We will also post on our website each day the maturity schedule of the assets in the Government Fund, the average weighted maturity and the nature of the holdings.”

(Source: The Reserve Funds Press Release dated October 1, 2008).

- On October 2, 2008, Bruce R. Bent, Chairman of Reserve Management Company, Inc. issued an “Important Notice to Reserve Funds Investors,” essentially in the form of answers to frequently asked questions regarding the Primary Fund and the U.S. Government Fund. The entirety of that notice is reproduced immediately below:

Primary Fund

When will we receive our money from the Primary Fund?

We will be distributing \$20 billion out of the Primary Fund on or about October 13, 2008. That distribution is about 32% of the assets as of the opening of business on September 15, 2008. It is the first distribution out of the Fund. Others will follow as dollars become available either as our assets mature or as we sell them. The markets for short-term securities remain illiquid except for short-term U.S. Treasuries. We will liquidate assets as soon as we can, but we don’t think it is in our shareholders interests to sell at fire-sale prices.

Will investors who redeemed after the Fund “broke the buck” be treated differently than those whose redemption orders were received before the fund “broke the buck.”

We can't answer this yet. We are working with the SEC to develop a plan of liquidation that will be fair to all shareholders. As soon as it is available we will post it on our website.

Do you think any Fund assets won't pay off at maturity?

We have a \$785 million face amount position in Lehman Holdings commercial paper and medium term notes, which is now being carried at zero. Except for that, we have no reason to think our investments have any credit problems. Of course, things can change particularly considering the continued global fiscal problems, so we can't be certain about whether we'll be paid in full at maturity. But right now, we believe we will.

Some investors have claimed that Reserve secretly tipped off investors on Monday, September 15, about “breaking the buck.” What is your response?

- The notion that the Reserve would secretly tip investors with material nonpublic information and create a “run” on the Reserve Primary Fund is absurd. The Fund's portfolio holdings were available to any investor who asked, including the people who have sued us.
- Shareholders in the Fund should be outraged that these lawsuits are causing the Fund to waste valuable time and effort in litigation at a time when all efforts should be focused on getting money back to investors. When the dust settles, we are confident that the “insider trading” allegations will be dismissed.

Government Fund

Please explain why the Government Fund is frozen. Aren't U.S. Treasuries trading?

U.S. Treasuries are liquid, but the Government Fund invests primarily in securities backed by the U.S. Government, such as Fannie Maes, Freddie Macs, and Ginnie Maes. These securities are not likely to default, they are just illiquid.

When will I get my money out of the Government Fund?

Like the Primary Fund, this Fund is also going to be liquidated. If the market becomes liquid, the portfolio holdings should be able to be sold relatively quickly at par. But in today's market, which is unprecedented, we can't obtain what we think is a fair price for them. So we intend to hold them until the markets open up or the securities mature. A table of maturities has been posted on our website at TheR.com.

Why can't the Fund distribute securities in kind?

We are considering doing in-kind transactions, but there are several big obstacles. For example, we hold securities in large denominations and they can't be broken into smaller pieces for distribution without incurring costs for the fund and for individual shareholders to hold the securities. Also, we can't allow “cherry-picking” of the most-liquid holdings by larger investors who want to take an in-kind distribution. However, we are considering all solutions that enable you to help us get your money back sooner.

Will I get \$1 for each Fund share when the Fund is liquidated?

The Fund holds securities of government-sponsored insurers, like FNMA, FHLMC and GNMA. We can't imagine the government not backing these securities, which is another way of saying we expect to recover the full amount when they mature.

Primary and Government Funds

How can I get more information about fund holdings?

Beginning today, we are posting on our website on a one-day lag the complete portfolio of the Funds, along with other information, such as ranges of portfolio securities. We will try to keep posting information investors want to see. If you call us, please understand that we cannot by law give some investors information before we give it to others. So we are going to use these web-postings as the primary means of communicating with our investors, so everyone gets the same information at the same time. We ask that you not call the staff of the SEC—we know more about the Funds and they can't tell you any more than we can.

A final word: We can't tell you how much we regret that we have had to freeze redemptions on the Primary and Government Funds. We did it because we thought it was the best way to protect all shareholders and treat all shareholders fairly. We are doing our best to restore liquidity to your investments in the Funds and thank you for your patience.

Bruce R. Bent

Reserve Management Company, Inc.

(Source: The Reserve Funds Press Release dated October 2, 2008).

- On October 9, 2008, The Reserve Funds announced that it had applied to the U.S. Treasury to allow investors to participate in the Treasury's Temporary Money Market Fund Guarantee Program for the Primary Fund and all but one (Reserve Yield Plus Fund) of its other money-market funds. The Reserve Funds stated that any Fund's participation in the Guarantee Program is subject to the approval of the United States Department of the Treasury. (Source: The Reserve Funds Press Release dated October 9, 2008).

Also on October 9, 2008, The Reserve Funds announced that it voted on October 9, 2008 to liquidate the assets of the following municipal money market funds:

Interstate Tax-Exempt Fund
California Municipal Money-Market Fund
Connecticut Municipal Money-Market Fund
Florida Municipal Money-Market Fund
Massachusetts Municipal Money-Market Fund
Michigan Municipal Money-Market Fund
New Jersey Municipal Money-Market Fund
Ohio Municipal Money-Market Fund
Pennsylvania Municipal Money-Market Fund
Virginia Municipal Money-Market Fund
Reserve Municipal Money-Market Trust
Arizona Municipal Money-Market Fund
Louisiana Municipal Money-Market Fund

Minnesota Municipal Money-Market Fund
New York Municipal Money-Market Fund

The Reserve Funds stated that it had initiated discussions with the staff of the Securities and Exchange Commission to permit the Funds to pay redemptions in a period longer than seven days.

The Reserve Fund also stated that it cannot currently estimate when distributions to investors will be made but said it is acting as expeditiously as markets permit to restore liquidity to investors and explained that the markets for short-term securities remain illiquid except for short-term U.S. Treasuries. The Reserve Funds went on to state that it will liquidate assets as soon as it can, but that it did not believe that it is in shareholders' interests to sell at fire-sale prices.

(Source: The Reserve Funds Press Release dated October 9, 2008).

- On October 13, 2008, The Reserve Funds announced that its planned October 13, 2008 distribution from the Primary Fund had been delayed. The Reserve Funds explained:

“The process of determining accurately the number of shares each investor held in the Primary Fund has proven to be extremely complex and could not be completed in the originally anticipated time frame. We have been working diligently to verify and confirm the shares held by each investor on that date. This requires that each investor’s opening balance in the Primary Fund on September 15th be adjusted to reflect permitted redemption transactions (via check, debit card and ACH), as well as any fund purchases effected through dividend reinvestment. In addition, we have asked our independent auditors, KPMG LLP, to perform certain procedures to provide additional assurance about the accuracy of each investor’s account balance information.

The \$20 billion is being held in the Primary Fund. We will notify investors immediately after we complete the process of calculating each investor’s account balance as of September 15th and will make the distribution at that time. We apologize for the delay but we trust that you understand that it is in the best interests of all the investors in the Primary Fund to make certain that the amounts distributed reflect accurately each investor’s interest in the fund.”

* * * *

The Reserve Funds stated it will post an update on its website no later than Friday, October 17, 2008, if the distribution has not been made prior to that date.

(Source: The Reserve Funds Press Release dated October 13, 2008)

- Between October 15 and October 18, 2008, The Reserve Funds issued a series of Press Releases providing updates and information concerning its planned distributions from the Primary Fund and the U.S. Government Fund. The Press Releases described, among other things, the delays experienced by The Reserve Funds in working out various operational, technical, accounting and related issues in connection with proceeding with its planned distributions. The Reserve Funds also announced that it was placing more information about these two funds on its website and that it is working “non-stop” to insure a proper distribution of balances in the fastest and most efficient manner possible.

(Source: The Reserve Funds Press Releases dated October 15, 16, 17 and 18, 2008).

- Between October 20 and October 27, 2008, The Reserve Funds issued a series of Press Releases providing additional updates and information concerning its planned distributions from the Primary Fund and the U.S. Government Fund. Most significantly, The Reserve Funds stated that the initial distribution from the Primary Fund is estimated to be made at the end of the week of October 27 in the amount of approximately \$25 billion, rather than the \$20 billion as previously announced. The Reserves Funds also stated that it expected the initial distribution from the U.S. Government Fund in the amount of approximately \$3.3 billion to occur approximately seven to 10 days after the initial Primary Fund distribution. Subsequent distributions from the U.S. Government Fund “will be principally dependent on the maturities of portfolio securities.”

(Source: The Reserve Funds Press Releases dated October 20, 21, 22, 23, 24, and 27, 2008).

- On October 24 and October 27, 2008, The Reserve Funds issued Press Releases announcing that the U.S. Securities and Exchange Commission (“SEC”) issued a temporary order permitting the temporary suspension of all rights of redemption effective as of October 8, 2008 for the following Reserve Funds:

Interstate Tax-Exempt Fund
California Municipal Money-Market Fund
Connecticut Municipal Money-Market Fund
Florida Municipal Money-Market Fund
Michigan Municipal Money-Market Fund
New Jersey Municipal Money-Market Fund
Ohio Municipal Money-Market Fund
Pennsylvania Municipal Money-Market Fund
Virginia Municipal Money-Market Fund
Arizona Municipal Money-Market Fund
Minnesota Municipal Money-Market Fund
New York Municipal Money-Market Fund

The Reserve stated it sought the Order to ensure an orderly disposition of the securities of the Funds and to insure that shareholders in each Fund are protected during the period of disposition. The Reserve stated that it is planning “an orderly liquidation, subject to supervision by the SEC, which will ensure that all investors are treated fairly and receive their money in the shortest time consistent with the timeline to realize the fair value of the securities.” The Reserve also stated that it intends to begin making payouts as soon as practicable, although it did not estimate a date.

With respect to the Massachusetts Municipal Money-Market Fund, the Reserve announced that it had voted to liquidate the assets of that Fund but had not sought an SEC order to suspend or postpone redemptions.

The Reserve also stated that it is not currently seeking to liquidate the Primary II Fund; Reserve Liquid Performance Money Market Fund; U.S. Treasury Fund; Treasury and Repo Fund; or U.S. Government II Fund.

(Source: The Reserve Funds Press Releases dated October 24 and October 27, 2008)

- On October 27, 2008, The Reserve Funds issued a Press Release announcing that it is evaluating the Federal Reserve's creation of a Money Market Investor Funding Facility, a complement to the Fed's previously announced facilities and guarantees aimed at providing liquidity to U.S. money market investors.

(Source: The Reserve Funds Press Release dated October 27, 2008)

- On October 30, 2008, The Reserve Funds issued a Press Release announcing an initial distribution to shareholders, on October 31, 2008, from the Primary Fund, in the amount of \$26 billion (including interest from 9/1/08 through 9/14/08), representing approximately 50% of the assets in the Fund. The Fund stated all investors are being treated the same regardless of when or if they tendered redemption orders to the Fund and that the distribution represents each investor's pro rata share. The Fund also stated that they expect to post a plan for the total liquidation of the Fund on their website in the next several days. Details as to how the distribution amounts were calculated, along with questions and answers regarding the Primary Fund's first distribution, were posted to The Reserve Fund's website at: www.ther.com.

(Source: The Reserve Funds Press Release dated October 30, 2008)

- On November 10, 2008, The Reserve Funds issued a Press Release advising investors who have checking, debit card and ACH services that they will continue to be able to make transactions against their accounts subject to the following limitation: the total amount in the aggregate available for using these services in each account is the lesser of \$10,000 or 90% of the September 15, 2008 pre-distribution account balance. The Reserve also stated that once the maximum amount has been withdrawn from a given account, the checking, debit card and ACH services will be discontinued for that account.

(Source: The Reserve Funds Press Release dated November 10, 2008)

- On November 13, 2008, The Reserve Funds issued a Press Release announcing an initial distribution to shareholders, on November 13, 2008, from the U.S. Government Fund, in the amount of \$4.5 billion (including interest from 9/1/08 through 9/14/08), representing approximately 40% of the assets in the Fund. The Fund stated all investors are being treated the same regardless of when or if they tendered redemption orders to the Fund and that the distribution represents each investor's pro rata share. The Fund also stated that further distributions will be made pursuant to the plan of liquidation, which is being finalized. Details as to how the distribution amounts were calculated, along with questions and answers regarding the U.S. Government Fund's first distribution, were posted to The Reserve Fund's website at: www.ther.com.

(Source: The Reserve Funds Press Release dated November 13, 2008)

- On November 20, 2008, The Reserve Funds announced the following in connection with the U.S. Government Fund:

“The Reserve U.S. Government Fund is covered by Treasury's Temporary Guarantee Program for Money Market Funds (the “Program”). In addition to entering into a

Guarantee Agreement under the Program, the Fund has entered into an agreement (“Letter Agreement”) pursuant to which it will use its best efforts to sell all of its portfolio securities by January 3, 2009. The sale price cannot be less than amortized cost absent approval by the Treasury. The Treasury through the Exchange Stabilization Fund (“ESF”) has agreed to purchase any securities remaining in the Fund on January 3, 2009 at a purchase equal to the aggregate amortized cost of such securities as defined in the Letter Agreement. The proceeds from the sale to ESF (net of accrued Fund expenses) will be distributed on a pro rata basis to all investors in the Fund. The proceeds resulting from the sale will be distributed within three business days of the payment of the proceeds by the Treasury unless the Treasury agrees to an extension. Net income, after actual and anticipated costs, will be paid to investors along with the final distribution.

“Because of this agreement the Government Fund will be able to return all of the Fund’s money to investors early next year,” said Bruce R. Bent, president of Reserve Management Company Inc., the Fund’s adviser. “This agreement allows us to achieve our goal of preservation of capital but enables investors to get their money back sooner. I want to thank our investors for their patience and understanding during these past few months.”

The Reserve Funds went on to state: “The adviser has agreed to waive its comprehensive management fees going forward to the extent these fees exceed the income earned and received by the Fund since September 19, 2008 and if taking the fee would result in Fund shareholders not receiving distributions of at least \$1 .00 per share. The Fund’s net asset value remains \$1.00 per share.

Currently the Fund’s assets are approximately \$6.3 billion, including \$231 million in cash. From now until January 3, the Fund will continue to accumulate cash as securities mature or are sold at or above amortized cost. As part of the agreement with the U.S. Department of the Treasury, the Fund will make an interim distribution to Fund shareholders when \$1 billion in cash has been accumulated, although the timing of this distribution may be deferred by the Board of Trustees until the accounts of the Fund shareholders have been reconciled to the extent necessary for a distribution. The Fund’s portfolio holdings and cash are held at the Fund’s custodian bank, as the Investment Company Act of 1940 requires. Additionally, the Fund’s portfolio holdings are available each day at www.TheR.com.

The obligation of the Treasury to purchase Fund portfolio securities through ESF is subject to certain conditions including: (1) The ESF having sufficient funds to pay the purchase price, (2) the Fund not having created a reserve to pay amounts other than permitted actual, anticipated and extraordinary Fund expenses, (3) the Fund having unencumbered title of the securities sold, and (4) a Guarantee Event (as defined in the Guarantee Agreement) has not occurred. If all conditions are not met or waived, the sale of Fund portfolio securities to ESF will not occur.

The Board decided on September 19 to liquidate the Government Fund as the result of unprecedented redemptions stemming in part from Lehman Brothers Holdings Inc.’s petition for bankruptcy protection on September 15. While Lehman Brothers Holdings Inc. debt was not held by the Reserve U.S. Government Fund, it was held in the Reserve Primary Fund. During that week, the Government Fund started with approximately \$10 billion in total assets and ended the week with approximately \$6 billion in redemption

requests.

Since then, The Reserve has been working diligently to return money to shareholders as expeditiously as possible consistent with a goal of preserving the Fund's \$1 .00 net asset value."

(Source: The Reserve Funds Press Release dated November 20, 2008)

- On November 21, 2008, The Reserve Funds announced that the second cash distribution for the Primary Fund will take place on or about December 5, 2008. It anticipates distributing approximately \$14 billion. It stated that if it is able to sell additional securities at amortized cost (without a loss) between now and the distribution date, those proceeds will be included in the distribution. The Reserve Funds also added, on a positive note, that over the past few weeks the market for certain Fund securities has improved, enabling the Fund to sell \$5 billion in securities at a profit, rather than waiting for them to mature.

(Source: The Reserve Funds Press Release dated November 21, 2008)

- Also on November 21, 2008, Reserve Management Company Inc. announced changes to the checking, debit card and Automated Clearing House (ACH) services for investors of the Reserve Primary and U.S. Government Funds. The Reserve Funds stated:

"In preparation for the final reconciliations and liquidations of the Funds, Reserve Management Company Inc. will suspend checking, debit card and ACH transactions. Checks received on or before Friday, November 28, 2008 will be honored. Checks received after that date will not be processed. Debit cards will be cancelled as of November 24, 2008. Outstanding authorized debit card transactions made before November 24 will be processed. ACH transactions will be honored until Friday, November 28, 2008. If [investors] have recurring ACH transactions applied against [their] account[s], make sure to redirect the payments from/to a different account as these transactions will not be processed after November 28, 2008. Any ACH Automatic Transfer Plans previously established with The Reserve will be cancelled. These modifications to the service transactions are being made in order to move ahead with the next step of the liquidation process.

The total allowable for checking, debit card and ACH transactions for each account remains the lesser of \$10,000 or 90% of the September 15, 2008 pre-distribution account balance. And for each account, no more than 90% of the pre-distribution balance may be distributed, either through the liquidation process or service transactions in aggregate."

(Source: The Reserve Funds Press Release dated November 21, 2008)

- On November 26, 2008, The Reserve Funds announced that, contrary to previous statements to the public and to investors, the Fund's net asset value per share was \$0.99 from 11:00 a.m. Eastern time to 4:00 p.m. Eastern time on September 16, 2008 and not \$1.00.

The Reserve Funds also stated: "This change resulted from an administrative error in computing the Fund's NAV on September 16, 2008, and is not the result of any change in

value of any portfolio holding, including Lehman Brothers Holdings, Inc., subsequent to 11:00 am. ET on September 16.”

(Source: The Reserve Funds Press Release dated November 26, 2008)

- On December 1, 2008, The Reserve Funds announced that it had fully liquidated and returned to shareholders the net assets (at \$1.00 a share) of the Massachusetts Municipal Money Market Fund and the Primary II Fund, including principal plus accrued interest, minus fund expenses.

(Source: The Reserve Funds Press Release dated December 1, 2008)

- On December 3, 2008, the Reserve Funds, Primary Fund, announced that it began a second cash distribution of approximately \$14.4 billion. To date, the Primary Fund has paid out \$40.4 billion, or approximately 80% of the Fund’s assets as of the close of business on September 15, 2008. Approximately \$10.8 billion remains in the Primary Fund. The \$14.4 billion distribution was made pro rata to all investors in the fund, including those who had submitted redemption orders that had not been funded and those that have not submitted redemption orders. The distribution represented principal only; the Reserve Funds stated that income accrued after September 14, 2008 will be addressed in the Fund’s Plan of Liquidation (See Below).

The Reserve Funds issued an accompanying second distribution “Q&A” for the Primary Fund describing, among other things, how the percentage distribution was calculated, tax consequences and the mechanics for receipt of the distribution.

The Primary Fund also issued an eight page “Plan of Liquidation and Distribution of Assets.” The Plan of Liquidation, states, among other things, that the Reserve Funds will continue to orderly liquidate the assets in the Primary Fund, make interim distributions, (expected to occur after accumulating the amount of \$5 billion, pro rata, on or about the tenth business day following the date of which such amount of assets have been accumulated) and will set up a special reserve to satisfy: 1) costs and expenses (including legal and accounting fees) of the fund; 2) pending and threatened claims against the fund; and; 3) other claims, including, but not limited to, claims for indemnification. The amount of that special reserve has not yet been specifically determined. (Please view the complete “Plan of Liquidation and Distribution of Assets” on The Reserve Fund’s Website at www.ther.com).

(Source: The Reserve Funds Press Releases dated December 3, 2008)

- On December 9, 2008 The Reserve Funds provided a distribution schedule below for certain Reserve Funds. This schedule shows when The Reserve Funds currently expects to make a cash distribution for each Fund. The Reserve Funds also stated the following: 1) One or more distributions may be delayed if The Reserve Funds is unable to complete the necessary reconciliation process and, in some cases, if a Fund’s Plan of Liquidation is not finalized (although, at present, The Reserve Funds does not expect these announced dates to be delayed); 2) The expected amounts of partial cash distributions set forth below are subject to change. For example, if a meaningful amount of additional portfolio holdings are sold prior to the distribution date, the distribution amount could be increased; and 3) In all cases where a full cash distribution is to be made, The Reserve

Funds reports that all investors will receive \$1.00 per share held in a Fund. The full distributions will include a distribution of a Fund’s net assets and any accrued income, less Fund expenses.

Expected Distribution Date	Fund	Distribution Type	Expected Distribution Amount	Post-Distribution Assets
Week of December 8, 2008	California Municipal Money-Market Fund	Partial/Initial	\$1.7 million	\$3.2 million
	Connecticut Municipal Money-Market Fnd	Full	\$2.4 million	\$0
	Florida Municipal Money-Market Fund	Partial/Initial	\$5 million	\$4.8 million
	Michigan Municipal Money-Market Fund	Full	\$4.9 million	\$0
	Minnesota Municipal Money-Market Fund	Full	\$1.8 million	\$0
	New Jersey Municipal Money-Market Fund	Partial/Initial	\$12.5 million	\$12.5 million
	Ohio Municipal Money-Market Fund	Full	\$1.8 million	\$0
	Virginia Municipal Money-Market Fund	Full	\$1.5 million	\$0
Week of December 15, 2008	New York Municipal Money-Market Fund	Full	\$89.5 million	\$0
Week of December 22, 2008	Yield Plus Fund	Partial/Initial	\$570 million	\$630 million
Week of January 5, 2009	U.S. Government Fund	Partial/Final	\$6.4 billion	\$0
Week of January 12, 2009	Interstate Tax-Exempt Fund	Partial/Initial	\$140 million	\$236 million

(Source: The Reserve Funds Press Release dated December 9, 2008)

- On December 9, 2008, The Reserve Funds also announced that in preparation for the final reconciliations and upcoming interim and full distributions, the following Reserve Funds are suspending checking, debit card and ACH transactions:

Arizona Municipal Money-Market Fund
 California Municipal Money-Market Fund
 Connecticut Municipal Money-Market Fund
 Florida Municipal Money-Market Fund
 Michigan Municipal Money-Market Fund
 Minnesota Municipal Money-Market Fund
 New Jersey Municipal Money-Market Fund
 New York Municipal Money-Market Fund
 Ohio Municipal Money-Market Fund
 Virginia Municipal Money-Market Fund

Checks received in proper form before December 9, 2008 will be honored. Checks received by the Reserve Funds after that date will not be processed. ACH transactions will be honored until December 9. If you have recurring ACH transactions applied against your account, make sure to redirect the payments from/to a different account as these transactions will not be processed after December 9. Any ACH Automatic Transfer Plans previously established with The Reserve will be cancelled. Debit cards were cancelled as of December 5. Outstanding authorized debit card transactions made before December 5 will be processed.

The Reserve Funds also stated that “[n]either the Funds nor their affiliates will be responsible for any penalties or charges resulting from dishonored checks or from the cancellation and termination of the service transactions after the cut-off dates indicated above” and that “[t]hese modifications are being made in order to move ahead with the next step of the

liquidation process.

(Source: The Reserve Funds Press Release dated December 9, 2008)

- On December 11, 2008, The Reserve Funds announced that in preparation for the final reconciliations and upcoming interim and full distributions in the Interstate Tax Exempt Fund that it is suspending checking, debit card and ACH transactions.

Checks received in proper form prior to December 12, 2008 will be honored. Checks received by the Reserve Funds on or after that date will not be processed. Debit cards will be cancelled as of December 11, 2008. Outstanding authorized debit card transactions made on or before December 11, 2008 will be processed. ACH transactions received prior to December 12, 2008 will be honored. If you have recurring ACH transactions applied against your account, make sure to redirect the payments from/to a different account as these transactions will not be processed on or after December 12, 2008. Any ACH Automatic Transfer Plans previously established with The Reserve will be cancelled.

The Reserve Funds also stated that “[n]either the Funds nor their affiliates will be responsible for any penalties or charges resulting from dishonored checks or from the cancellation and termination of the service transactions after the cut-off dates indicated above” and that “[t]hese modifications are being made in order to move ahead with the next step of the liquidation process.

(Source: The Reserve Funds Press Release dated December 11, 2008)

- On December 12, 2008, The Reserve Funds announced that it had made the following distributions to shareholders:

New Jersey Municipal Money Market Fund: Initial: \$12.5 million (representing approximately 50% of the \$25 million in total Fund assets as of the close of business on December 11, 2008.).

Connecticut Municipal Money Market Fund: Full: \$8.9 million (representing all of the Fund’s net assets at \$1.00 per share, plus accrued income (reinvested in additional shares and distributed at \$1.00 per share), less Fund expenses).

Florida Municipal Money Market Fund: Initial: \$7.9 million (representing approximately 80% of the \$9.8 million in total Fund assets as of the close of business on December 11, 2008.).

California Municipal Money Market Fund: Initial: 3.8 million (representing approximately 76% of the \$5.0 million in total Fund assets as of the close of business on December 11, 2008.).

All of the above Municipal Money Market distributions (except Connecticut) are being paid pro rata to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those that have not submitted redemption orders. The distributions include the Funds’ net assets and accrued income less Fund expenses. The accrued income was reinvested in additional shares, which are distributed

at \$1.00 per share. Investors received \$1.00 per share in these distributions.

(Source: The Reserve Funds Press Release dated December 11, 2008)

- On December 19, 2008, The Reserve Funds announced that it had made the following distribution to shareholders:

New York Municipal Money Market Fund: \$88.5 million (representing approximately 99% of the \$89.5 million in total Fund assets as of the close of business on December 16, 2008.). Approximately \$985,000 in assets remain in the Fund. This initial distribution is being paid to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those that have not submitted redemption orders. Investors received \$1.00 per share in this distribution and the distribution includes the Fund's net assets and accrued income through October 13, 2008, less Fund expenses. Accrued income was reinvested in additional shares, which are distributed at \$1.00 per share.

The Reserve Funds stated that “[w]hile we had expected to make a full distribution of the assets in the Fund this week as previously announced, for operational reasons the distribution of accrued income after October 13, 2008, will take place in a final distribution, which we anticipate will occur in early January 2009.”

(Source: The Reserve Funds Press Release dated December 19, 2008)

- On December 23, 2008, The Reserve Funds issued a Press Release stating that on December 18, 2008, the staff of the SEC's Division of Enforcement indicated its intention to recommend that the SEC bring an enforcement action against Reserve Management Company, Inc. (“RMCI”), which serves as the investment adviser to each of the Reserve funds. The SEC action is reported to allege violations of certain provisions of the federal securities laws. The SEC also gave notice of its intention to recommend enforcement actions against Bruce Bent, President of RMCI and President and Chairman of the Board of each Fund, against Bruce Bent II, Senior Vice President of RMCI and Co-Chief Executive Officer of each Fund and against Arthur Bent III, Chief Operating Officer and Treasurer of RMCI and Co-Chief Executive Officer of each Fund. RMCI, Mr. Bruce Bent, Mr. Bruce Bent II and Mr. Arthur Bent III said they expect to defend vigorously against the allegations.

The Reserve Funds also stated that each Fund, through the independent members of its Board of Trustees, intends to cooperate fully with the SEC staff regarding this matter.

(Source: The Reserve Funds Press Release dated December 23, 2008)

- On December 24, 2008, The Reserve Funds issued a Press Release updating the status of the special reserve established under the Plan of Liquidation for the Primary Fund. A summary of the information contained in that Press Release is quoted directly below (please consult the Reserve Fund's website at www.ther.com for additional details):

“As previously disclosed in the Plan, the special reserve will be used to satisfy (a) anticipated costs and expenses of the Fund, including legal and accounting fees; (b) pending or threatened claims against the Fund, its officers and Trustees; and (c) claims,

including but not limited to claims for indemnification that could be made against Fund assets. The Board took this approach because it considered it important to provide liquidity to investors without prejudicing the legal rights and remedies, if any, of any Distributee's claims.

The Board, together with outside advisors, has begun the process of estimating the amount to be initially set aside for the special reserve. That work is ongoing and the Board expects to make a preliminary estimate within 45 days. Investors should be aware, however, that for the reasons discussed below, it is extremely difficult to estimate those total potential liabilities with any degree of precision.

At the time the Plan was announced, eighteen individual and class action cases had been commenced against the Trust, the Fund and others in federal and state courts around the country, asserting liability under numerous different legal theories and seeking various forms of relief, including general, special and punitive damages. Certain regulatory investigations have been commenced as well. At this early stage, it is not possible to predict what the outcome of these investigations will be. Given that claims for compensatory and punitive damages have been asserted, it is not possible to estimate with precision the Fund's potential damage exposure. The potential damages could include a portion of plaintiffs' attorney's fees and expenses.

The fees and expenses the Fund might incur in defending against these claims are also difficult to estimate and depend upon the length of the litigation. In an effort to minimize those fees and expenses, the Fund has made a motion before the Judicial Panel on Multidistrict Litigation (the "JPML") for an order transferring all of the cases to a single court in New York for coordinated or consolidated pre-trial proceedings which, if granted, will significantly streamline the litigation and reduce the Fund's litigation costs (the "Transfer Motion"). Some plaintiffs have opposed the Transfer Motion, seeking to litigate their claims in separate courts on their own schedule, despite the increased cost to the Fund and, ultimately, to all of the Fund's shareholders. Other plaintiffs have sought to consolidate those cases currently pending in federal court in New York into one case (the "Consolidation Motion"). The Fund has supported the Consolidation Motion on the grounds that, among other things, it is in shareholders' interests to streamline the litigation as much as possible. Other plaintiffs have opposed the Consolidation Motion. Litigation in multiple courts tends to increase the cost of litigation to the Fund. It is not possible to predict the number of cases, or the length of litigation, involving the Fund. As a result, it is difficult to estimate the Fund's potential legal expenses.

In addition to its own litigation expenses, the Trust has an obligation to indemnify the trustees and officers of the Trust. For the same reasons discussed above, at this stage, it is impossible to estimate what the total costs of these obligations will be with any degree of precision.

The Fund is also responsible for any extraordinary fees and expenses beyond those an investment company would typically incur. This includes, for example, the fees and expenses incurred by the accounting firm engaged to perform certain tasks in connection with the Interim Distributions, as disclosed in the Plan. The Fund cannot presently estimate the total amount of extraordinary fees and expenses it might be required to make.

In approaching the establishment' of the special reserve, the Board's overarching goal has been and will be to set the special reserve at an amount that takes account of a reasonable estimate of the Fund's total potential liabilities so that it will be able to meet claims, if any, for damages by investors, while not withholding money unnecessarily that could be returned to shareholders without risking that shareholder claims will not be met if successful. The Board is carefully evaluating relevant information with this goal in mind. Because that work is still ongoing and circumstances are in a state of flux, after discussions with the staff of the SEC, the Board has decided temporarily to defer setting the amount of the initial special reserve for another 45 days. This is not expected to impact the Interim Distributions, which will continue to be made up to the amount of the special reserve. Amounts in the special reserve will be distributed to shareholders once claims, if any are successful, have been paid or set aside for payment. However, determination of entitlement to these amounts may take a long period of time and involve substantial expense."

(Source: The Reserve Funds Press Release dated December 24, 2008)

- On January 9, 2009, The Reserve Funds announced that, pursuant to its Letter Agreement with the U.S. Department of the Treasury dated November 19, 2008, the U.S. Government Fund has provided notice of its intention to consummate the sale of its remaining portfolio securities to the Treasury through the Exchange Stabilization Fund ("ESF") on January 15, 2009. Assuming the transaction closes as scheduled, it is anticipated that the Fund will commence distribution of the proceeds from this sale, along with the Fund's remaining assets, on January 16, 2009.

The Reserve Funds stated that the proposed January 15, 2009 closing remains subject to the fulfillment of the closing conditions contained in the Letter Agreement. Among other conditions, the Letter Agreement provides that the obligation of the Treasury to purchase Fund portfolio securities through the ESF is subject to: (1) the ESF having sufficient funds to pay the purchase price, (2) the Fund not having created a reserve to pay amounts other than permitted actual, anticipated and extraordinary Fund expenses, (3) the Fund having unencumbered title of the securities sold, and (4) no Guarantee Event (as defined in the Fund's separate Guarantee Agreement with the Treasury) having occurred. If all conditions are not met or waived, the sale of Fund portfolio securities to the ESF will not occur.

(Source: The Reserve Funds Press Release dated January 9, 2009)

- On January 16, 2008, The Reserve Funds, U.S. Government Fund, announced that it began the final distribution to shareholders of the remaining approximately \$6.4 billion of assets of the Fund. As a result of this distribution, investors will receive a total of \$1.00 per share plus their proportionate share of the income earned by the Fund after payment of Fund expenses. Under the Fund's Plan of Liquidation, this distribution is being made on a pro rata basis to all investors in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders.

(Source: The Reserve Funds Press Release dated January 16, 2009)

- On January 20, 2009, The Reserve Funds updated its distribution schedule for the following Reserve Funds:

Expected Distribution Date	Fund	Distribution Type	Expected Amount	Remaining Assets
Week of 1/26/09	Interstate Tax-Exempt Fund	Partial/Initial	\$354 million	\$22 million
Week of 2/2/09	California Municipal Money Market Fund	Partial/Final	\$1.2 million	\$0
	Florida Municipal Money Market Fund	Partial/Final	\$1.9 million	\$0
	New Jersey Municipal Money Market Fund	Partial/Final	\$12.8 million	\$0
	New York Municipal Money Market Fund	Partial/Final	\$959,000	\$0
Week of 2/9/09	Primary Fund	Partial/Third	\$3 billion	\$8.1 billion

The Reserve Funds stated that this schedule provides an estimate of when it expects to make cash distributions for each Fund. However, it continued, distributions may be delayed if it is unable to complete the necessary reconciliation process and, in some cases, if a fund's Plan of Liquidation is not finalized.

The Reserve Funds stated that the expected amounts of partial cash distributions are subject to change; if a meaningful amount of additional portfolio holdings are sold prior to the distribution date, the distribution amount could be increased. The Reserve Funds also stated that in all four cases where a final cash distribution is to be made, all investors will receive \$1 .00 per share held in a fund as has been the case with all previously liquidated funds. The final distributions will include each fund's net assets and any accrued income, less the respective fund's expenses.

(Source: The Reserve Funds Press Releases dated January 20, 2009 and January 14, 2009)

- On January 22, 2009, The Reserve Funds, Primary Fund, issued a Press Release providing an update of various Primary Fund expenses and indicated that this information would be updated no less frequently than every two weeks.

(Source: The Reserve Funds Press Release dated January 22, 2009.)

- On January 26, 2009, The Reserve Funds announced that it began the initial distribution to its Interstate Tax-Exempt Fund shareholders. This distribution in the amount of \$354 million represents approximately 94% of the \$375 million in total Fund assets as of the close of business on January 23, 2009. Approximately \$22 million in assets remain in the Fund, pending the maturity or sale of portfolio securities.

According to the Reserve Funds, this initial distribution is being paid to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders. The distribution includes the Fund's net assets and accrued income, less Fund expenses. The accrued income was reinvested in additional shares, which are distributed at \$1.00 per share.

Investors received \$1.00 per share in this distribution.

(Source: The Reserve Funds Press Release dated January 26, 2009)

- On January 28, 2009, The Reserve Funds updated its distribution schedule for the following Reserve Funds:

<u>Expected Distribution Date</u>	<u>Fund</u>	<u>Distribution Type</u>	<u>Expected Amount</u>	<u>Remaining Assets</u>
Week of 2/2/09	Florida Municipal Money Market Fund	Partial/Final	\$1.9 million	\$0
	New Jersey Municipal Money Market Fund	Partial/Final	\$12.8 million	\$0
Week of 2/9/09	California Municipal Money Market Fund	Partial/Final	\$1.2 million	\$0
	New York Municipal Money Market Fund	Partial/Final	\$959,000	\$0
Week of 2/16/09	Primary Fund	Partial/Third	\$3 billion	\$8.1 billion

The Reserve Funds stated that this schedule provides an estimate of when it expects to make cash distributions for each Fund. However, it continued, distributions may be delayed if it is unable to complete the necessary reconciliation process and, in some cases, if a fund's Plan of Liquidation is not finalized.

The Reserve Funds stated that the expected amounts of partial cash distributions are subject to change; if a meaningful amount of additional portfolio holdings are sold prior to the distribution date, the distribution amount could be increased. The Reserve Funds also stated that in all four cases where a final cash distribution is to be made, all investors will receive \$1 .00 per share held in a fund as has been the case with all previously liquidated funds. The final distributions will include each fund's net assets and any accrued income, less the respective fund's expenses.

(Source: The Reserve Funds Press Release dated January 28, 2009)

- On February 4, 2009, The Reserve Funds announced that it began the final distribution to New Jersey Municipal Money-Market Fund shareholders in the amount of \$12.8 million and that the Plan of Liquidation for the Fund has been finalized. The Plan was subject to the U.S. Securities and Exchange Commission's supervision. The Reserve Funds also reported that: 1) the final distribution is being paid to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders; 2) effective with this distribution, investors received \$1.00 per share, which includes the Fund's net assets and accrued income, less Fund expenses; and 3) accrued income was reinvested in additional shares, which were liquidated and distributed. (There were 12,805,692 shares outstanding).

(Source: The Reserve Funds Press Release dated February 4, 2009)

- On February 6, 2009, The Reserve Funds announced that it began the final distribution to Florida Municipal Money-Market Fund shareholders in the amount of \$1.95 million and that the Plan of Liquidation for the Fund has been finalized. The Plan was subject to the U.S. Securities and Exchange Commission's supervision. The Reserve Funds also reported that: 1) the final distribution is being paid to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders; 2) effective with this distribution, investors received \$1.00 per share, which includes the Fund's net assets and accrued income, less Fund expenses; and 3) accrued income was reinvested in additional shares, which were liquidated and distributed. (There were 1,955,454 shares outstanding).

(Source: The Reserve Funds Press Release dated February 6, 2009)

- On February 13, 2009, The Reserve Funds announced that it began the final distribution to New York Municipal Money-Market Fund shareholders in the amount of \$919,000 and that the Plan of Liquidation for the Fund has been finalized. The Plan was subject to the U.S. Securities and Exchange Commission's supervision. The Reserve Funds also reported that: 1) the final distribution is being paid to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders; 2) effective with this distribution, investors received \$1.00 per share, which includes the Fund's net assets and accrued income, less Fund expenses; and 3) accrued income was reinvested in additional shares, which were liquidated and distributed. (There were 919,838 shares outstanding).

(Source: The Reserve Funds Press Release dated February 13, 2009)

- On February 13, 2009, The Reserve Funds announced that it began the final distribution to California Municipal Money-Market Fund shareholders in the amount of \$1.18 million and that the Plan of Liquidation for the Fund has been finalized. The Plan was subject to the U.S. Securities and Exchange Commission's supervision. The Reserve Funds also reported that: 1) the final distribution is being paid to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders; 2) effective with this distribution, investors received \$1.00 per share, which includes the Fund's net assets and accrued income, less Fund expenses; and 3) accrued income was reinvested in additional shares, which were liquidated and distributed. (There were 1,182,645 shares outstanding).

(Source: The Reserve Funds Press Release dated February 13, 2009)

- On February 20, 2009, The Reserve announced that it began the third distribution to Primary Fund shareholders. This distribution in the amount of \$3.4 billion represents approximately 31% of the \$11 billion in total Fund assets as of the close of business on February 17, 2009. To date, \$43.8 billion, or approximately 85% of Fund assets as of the close of business on September 15, 2008, has been returned to investors. Approximately \$7.6 billion remains in the Fund.

The third distribution is being paid pro rata to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders.

Each investor's pro rata share for this third distribution was calculated using the account balance after the previous two distributions reduced by any service transactions (debit cards, checking and Automated Clearing House (ACH) transactions) processed from October 30 through November 28, 2008. The resulting number, representing each investor's remaining shares in the Primary Fund, was then divided by the current aggregated shares of all investors to arrive at an ownership percentage, which was used to calculate each investor's pro rata distribution.

This distribution represents principal only. The income accrued after September 14 is addressed in the Fund's Plan of Liquidation. Investors who used service transactions after the initial distribution may not receive 31% of their current account balance if that amount would exceed the previously announced account limit that no more than 90% of the September 15 pre-distribution balance may be distributed, either through the liquidation process or service transactions in aggregate. Service transactions for the Fund were suspended the week of November 24.

The Reserve Funds also announced, on February 18, 2009, updates reflecting information about the Primary Fund's expenses, remaining assets, net income, shares outstanding and certain decisions expected to be made by the Fund's Board of Trustees concerning, among other things, payment of management fees to the Fund's investment adviser. Please consult the Reserve Fund's website at www.ther.com for full details.

(Source: The Reserve Funds Press Releases dated February 20, 2009 and February 18, 2009)

- On February 26, 2009, the Reserve Funds, Primary Fund, announced that it had initially determined to set aside \$3.5 billion in the special reserve, such amount representing the Fund's efforts to arrive at an amount which will cover the Fund's total potential liabilities, so that it will be able to meet claims for damages, if any, while still returning as much money to shareholders, as quickly as possible. Please consult the Reserve Fund's website at www.ther.com for full details.

(Source: The Reserve Funds Press Release dated February 26, 2009)

- On March 11, 2009 the Reserve Funds announced that shareholders of the Reserve Primary Fund will not recognize a loss on their investment in the Fund for the 2008 tax year as no loss has been recognized by the Fund at this time. To date, the Fund has paid out pro rata liquidating distributions only. Once shareholders receive their final distribution, a loss can be calculated by subtracting the total distributions received from their original cost basis all adjusted for interest earned. The fund will track the cost and the ultimate loss on the Lehman investment and will report such to investors when appropriate. Dividends (interest income) will be identified as such on both 2008 Form 1099 DIV and the 2009 Form 1099 DIV. The Reserve Funds recommended that investors contact their tax professional for assistance in preparing tax information regarding the Fund as neither the Fund nor its advisor, Reserve Management Company, Inc. provides tax advice.

(Source: The Reserve Funds Press Release dated March 11, 2009)

- On March 13, 2009, The Reserve Funds, Interstate Tax-Exempt Fund, announced that it began the final distribution to Interstate Tax-Exempt Fund shareholders in the amount of

\$21.02 million and that the Plan of Liquidation for the Fund has recently been finalized and is subject to the U.S. Securities and Exchange Commission's supervision. The Reserve Funds also stated that this final distribution is being paid to all investors in the Fund, including those who submitted redemption orders that had not been funded and those that did not submit redemption orders. Under the Plan of Liquidation, the distribution includes the Fund's net assets, plus accrued income less Fund expenses. Net accrued income was reinvested in additional shares, which were liquidated at \$1.00 per share. Investors received \$1.00 per share with 21,029,951 shares outstanding as of March 11, 2009.

(Source: The Reserve Funds Press Release dated March 13, 2009)

- On April 17, 2009, The Reserve Funds, Primary Fund, announced that it began the fourth distribution to Primary Fund shareholders. This distribution in the amount of \$2.3 billion represents approximately 34% of the Fund's remaining asset value of \$6.83 billion as of the close of business on April 16, 2009. To date, \$46.1 billion, or approximately 90% of Fund assets as of the close of business on September 15, 2008, has been returned to investors. Approximately \$4.5 billion remains in the Fund, which includes the Lehman Brothers Holdings Inc. securities held in the Fund, which are valued at zero. This fourth distribution is being paid pro rata to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders.

The Fund's net asset value fell below \$1.00 per share on September 16. Reserve Management Company, Inc. continues to focus on liquidating the Fund's holdings at amortized cost.

Each investor's pro rata share for this fourth distribution was calculated using the account balance after the previous three distributions reduced by any service transactions (debit cards, checking and Automated Clearing House (ACH)) processed from October 30 through November 28, 2008. The resulting number, representing each investor's remaining shares in the Primary Fund, was then divided by the current aggregated shares of all investors to arrive at an ownership percentage, which was used to calculate each investor's pro rata distribution.

This distribution represents principal only. The income accrued after September 14, 2008 is addressed in the Fund's Plan of Liquidation (See The Reserve Fund's website at www.ther.com).

Investors who used service transactions after the initial distribution may not receive 34% of their current account balance if that amount would exceed the previously announced account limit that no more than 90% of the September 15, 2008 pre-distribution balance may be distributed, either through the liquidation process or service transactions in aggregate. Service transactions for the Fund were suspended the week of November 24, 2008.

(Source: The Reserve Funds Press Release dated April 17, 2009)

- On June 11, 2009, the Reserve Management Company, Inc., affiliated entities and individuals filed a motion to dismiss a civil action brought by the SEC which sought,

among other things, an order from the court directing that the Primary Fund immediately distribute its remaining assets to shareholders. (Please consult the Reserve Funds' website at www.ther.com for further details).

(Source: *The Reserve Funds Press Release dated June 23, 2009*)

- On June 15, 2009, The Reserve Funds announced that the United States District Court for the Southern District of New York issued an Order (the "Order") on an application made by the U.S. Securities and Exchange Commission (the "Commission") concerning the distribution of the Primary Fund's remaining assets.

The Commission's application proposes a plan to distribute the remaining assets of the Primary Fund on a *pro rata* basis to shareholders of the Primary Fund whose shares have not been fully redeemed since September 15, 2008. The Commission also seeks an order enjoining certain claims against the Primary Fund and other parties named as defendants in litigation involving the Primary Fund. The terms of the Commission's proposed plan are contained in a "Term Sheet" attached as an Appendix to the Court's Order.

Pursuant to a plan of distribution adopted by the Trustees on December 3, 2008, shareholders have to date received approximately 90 percent of their assets in the Fund.

As set forth in the Order, **any person who objects to the Commission's proposed relief and plan of distribution must file a statement of objection with the Court by July 22, 2009.** Details about the filing of objections and upon whom such objections should be served are contained in the Order. Shareholders who do not object to the Commission's application do not need to file any papers with the Court.

The Court will hold a hearing at 9:30 a.m. on September 23, 2009 in Courtroom 18B of the United States Courthouse, 500 Pearl Street, New York, New York on whether it will grant the Commission's application and approve the proposed *pro rata* plan of distribution sought by the Commission and other aspects of the Term Sheet.

By June 22, 2009, the Primary Fund will mail copies of the Order and the Term Sheet to all owners of record for unredeemed shares in the Fund as of September 15, 16, 17 or 18, 2008. In addition, the Order, the Term Sheet and the Commission's Memorandum of Law in Support of Its Proposed Order to Show Cause and Application for Injunctive or Other Relief are available on:

- 1) The Commission's website, <http://www.sec.gov/spotlight/reserveprimaryfundinvestorshtm>; and
- 2) The Reserve's website, www.ther.com/reservenewslist.shtml. The Order and the Term Sheet: (<http://www.ther.com/pdfs/Gardephe%20Order.pdf>). The Memorandum of Law: (<http://www.ther.com/pdfs/Memorandum%20of%20LawPDF>)

(Source: *The Reserve Funds Press Release dated June 15, 2009*)

- On August 25, 2009, The Reserve Funds, Primary Fund, issued a statement regarding calculations of potential distributions from the Primary Fund on a *pro rata* basis. That statement is reproduced, essentially in its entirety, below:

“The Fund and its Independent Trustees unequivocally support the distribution of the Fund’s remaining assets on a fair and equitable basis as quickly as possible and on Friday filed briefs with the U.S. District Court for the Southern District of New York stating that position. In those briefs, we explained that, based on revised calculations and updated data, each unpaid shareholder may receive \$0.9875 per share, *pro rata*, and possibly up to \$0.99 per share, based on certain assumptions. We previously estimated that investors would receive \$0.985 per share.

Background. To date, the Primary Fund has distributed \$46.08 billion through four interim distributions on a *pro rata* basis to remaining shareholders, representing \$90 per share for each of the remaining 51.18 billion shares outstanding. The Fund holds \$4.55 billion of remaining assets (not counting any value for its \$785 million face amount of Lehman Brothers Holdings securities). The Board has set aside \$3.5 billion of those assets in a special reserve to satisfy possible legal, accounting and other expenses, including claims for indemnification that could be made against Fund assets as a result of pending shareholder claims against the Fund, its officers and Trustees.

Revised Analysis of Distributions on Pro Rata Basis. The Independent Trustees retained Cornerstone Research to analyze the amount that could be distributed to remaining investors on a *pro rata* basis based on certain assumptions. One assumption is that the special reserve could be substantially reduced, possibly to around \$90 million, if the court were to approve a Proposed Plan of Distribution suggested by the Securities and Exchange Commission. Based on this assumption and assuming that the Fund would be unable to recover any value for its Lehman position, remaining investors would be paid \$.9875 per share, *pro rata*. Shareholders could possibly receive up to \$0.99 per share, *pro rata*, should the Fund receive 17% of par value for its Lehman securities, a figure that may reflect the current market value of the position. The ultimate amount distributed will vary depending on the actual price received for the Lehman securities, the amount of Fund expenses, and other factors.

There can be no guarantee at this stage that the Court will approve the SEC’s proposed plan, or that the special reserve can be reduced. Nor can there be a guarantee as to the price at which Lehman securities can be sold or the timing of any such sale. Still, the Board is hopeful that through the SEC’s proposed distribution plan or through other resolution of the litigation, the Fund can release more to investors more quickly. As previously stated, “the sooner the litigation is resolved, the sooner moneys held in the special reserve can be released to shareholders and, potentially, the greater the payout.””

(Source: *The Reserve Funds Press Release dated August 25, 2009*)

- On September 22, 2009, The Reserve Funds announced that it will begin the fifth distribution to Primary Fund shareholders on or about October 2, 2009. This distribution in the amount of approximately \$1 billion represents approximately 22% of the Fund’s remaining asset value of \$4.5 billion as of the close of business on September 22, 2009. Including this fifth distribution, \$47.1 billion, or approximately 92% of Fund assets as of the close of business on September 15, 2008, has been returned to investors to date. Approximately \$3.5 billion remains in the Fund, which includes the Lehman Brothers Holdings Inc. securities held in the Fund, which are valued at zero.

This fifth distribution is being paid pro rata to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders. The Fund's net asset value fell below \$1.00 per share on September 16, 2008.

Each investor's pro rata share for this fifth distribution was calculated using the account balance after the previous four distributions reduced by any service transactions (debit cards, checking and Automated Clearing House (ACH)) processed from October 30 through November 28, 2008. The resulting number, representing each investor's remaining shares in the Primary Fund, was then divided by the current aggregated shares of all investors to arrive at an ownership percentage, which was used to calculate each investor's pro rata distribution.

This distribution represents principal only. The income accrued after September 14, 2008 is addressed in the Fund's Plan of Liquidation.

Investors who used service transactions after the initial distribution may not receive 22% of their current account balance if that amount would exceed the previously announced account limit that no more than 92% of the September 15, 2008 pre-distribution balance may be distributed, either through the liquidation process or service transactions in aggregate. Service transactions for the Fund were suspended the week of November 24, 2008.

(Source: The Reserve Funds Press Release dated September 22, 2009)

- On November 27, 2009 The Reserve Funds, Primary Fund, announced that, on November 25, 2009, the United States District Court for the Southern District of New York issued an Order (the "Order") on an application made by the U.S. Securities and Exchange Commission (the "Commission") concerning the distribution of the Primary Fund's remaining assets.

The Order provides for a *pro rata* distribution of the remaining assets and enjoins certain claims against the Primary Fund and other parties named as defendants in litigation involving the Primary Fund. The terms of the plan, and a discussion thereof, are set forth in the Order and accompanying Opinion dated November 25, 2009.

To date, shareholders have received approximately 92 percent of their assets in the Fund as of the close of business on September 15, 2008.

The Primary Fund will mail copies of the Order and Opinion to owners of record for unredeemed shares in the Fund as of September 15, 16, 17 or 18, 2008, as required by the Court. In addition, the Order and Memorandum Opinion are available on the Commission's website, <http://www.sec.gov> and The Reserve's website, www.TheR.com.

(Source: The Reserve Funds Press Release dated November 27, 2009)

- On January 26, 2010, The Reserve Funds, Primary Fund announced that it will begin its sixth distribution to Primary Fund shareholders on or about January 29, 2010. The distribution, in the amount of approximately \$3.4 billion, represents approximately 95% of the Fund's remaining asset value of \$3.56 billion as of the close of business on January 21,

2010. Including this sixth distribution, \$50.5 billion, or approximately 99% of Fund assets as of the close of business on September 15, 2008, will have been returned to investors.

This sixth distribution, which has been ordered by and is subject to the supervision and oversight of the United States District Court for the Southern District of New York, is being paid to all investors remaining in the Fund, including those who submitted redemption orders that had not been funded and those who have not submitted redemption orders, according to the terms of the Court's Order. The Fund's net asset value fell below \$1.00 per share on September 16, 2008.

Approximately \$160 million, exclusive of the value of the Lehman Brothers Holdings Inc. securities, which are carried at zero, will remain in the Fund to cover certain claims for indemnification expenses, management fees and other costs, to the extent such amounts are approved by the Court.

(Source: The Reserve Funds Press Release dated January 26, 2010)

The Current Situation

According to the Associated Press, this is only the second time that a widely-used money market fund has “broken the buck.” The Reserve Funds enjoyed for many decades the reputation of being one of the finest families of money market funds. And now, due to the liquidity limitations, people who invested their cash into these money market funds are faced with delays in getting access to these funds, as well as the potential for decline in value.

David Lerner Associates' Response

Our clients' financial interests are our utmost concern here at David Lerner Associates, Inc. (“DLA”). We realize the significance to you of the developments at The Reserve Funds and seek to provide you with information that will hopefully assist you in comprehending the recent events that have occurred at The Reserve Funds and in determining the most appropriate course of action.

We understand the challenges that this situation has created for our clients and we thank you for your patience and trust. We are working hard to provide accurate, up-to-date information about The Reserve Funds' situation. We will continue to post updates on our website at www.davidlerner.com as further information becomes available.

Primary Fund

Historical Information:

In a very positive development, on October 31, 2008, the Reserve Funds, Primary Fund, made an initial distribution to shareholders in the amount of \$26 billion, representing approximately 50% of the assets in the Fund. In other positive developments, on December 3, 2008, the Primary Fund made an additional \$14.4 billion cash distribution; on February 20, the Primary Fund announced a third, partial distribution in the amount of \$3.4 billion; and on April 17, 2009, the Primary Fund announced a fourth partial distribution in the amount of \$2.3 billion. On September 22, 2009, the Reserve Funds announced the fifth distribution to Primary Fund shareholders in the amount of \$1 billion on a pro rata basis representing 92% of Fund assets as of

the close of business on September 15, 2008. In addition, the Primary Fund had published its Plan of Liquidation and Distribution of Assets with respect to additional distributions after the second, \$14.4 billion distribution and continues to update the Plan. The Plan of Liquidation indicates that the Reserve Funds will continue to orderly liquidate the assets in the Primary Fund, make interim distributions, (see schedule and distribution updates, above), and has established a special reserve to satisfy: costs and expenses (including legal and accounting fees) of the fund; pending and threatened claims against the fund; and other claims, including, but not limited to, claims for indemnification. The amount of that special reserve has initially been determined by The Reserve to be \$3.5 billion, although that amount is subject to adjustment (increase or decrease) as further information becomes available. DLA continues to believe that this approach enables the Reserve Funds to recover better value for fund shareholders than if they were forced to attempt liquidations too quickly in the current market. In other words, it gives the Reserve Funds time to do the right thing for its shareholders, including so many of our clients. While the Plan of Liquidation is quite specific, we recognize that there may be some additional delays in funding subsequent redemptions, particularly in view of the uncertainties involving the special reserve. The Primary Fund publishes information on its website every two weeks detailing the status of various Fund expenses, assets, undistributed net income, shares outstanding and the special reserve.

Significant Development: November 25, 2009

On November 25, 2009, the U.S. District Court for the Southern District of New York issued an Order which provides for a pro-rata distribution of the remaining assets in the Primary Fund, less certain downwardly-revised expense reserves and enjoins (prohibits) certain claims against the Primary Fund and others. The net effect of this Order appears to be that substantially all of the remaining Primary Fund assets will be distributed to shareholders in the near future. It is currently estimated that the approximate recovery to shareholders will ultimately be in the neighborhood of 99%.

Most Recent Information:

Significant Development: January 26, 2010

The Reserve Fund, Primary Fund, announced that it will begin its sixth distribution to Primary Fund shareholders on or about January 29, 2010. The distribution, in the amount of approximately \$3.4 billion, represents approximately 95% of the Fund's remaining asset value of \$3.56 billion as of the close of business on January 21, 2010. Including this sixth distribution, \$50.5 billion, or approximately 99% of Fund assets as of the close of business on September 15, 2008, will have been returned to investors. This development brings the Primary Fund yet another step closer to the final chapter in this unprecedented and unfortunate saga. As previously stated, we remain optimistic that, with patience, this matter will resolve to the satisfaction of our loyal clients.

Important Information Concerning Federated Money Market Funds

We are pleased to inform you that DLA has have selected Federated Investors, Inc. to replace The Reserve Funds as our money market fund, effective November 3, 2008. For over half a century, Federated Investors, Inc. has provided investment services to millions of investors.

As one of the nation's largest money market fund managers, Federated has more than \$333 billion in assets under management.

All Reserve Fund Primary and U.S. Government Funds, when received, were swept into the Federated Treasury Fund; all Reserve Municipal Bond Funds and Interstate Tax Exempt Fund when received, were swept into the equivalent state Federated Municipal Bond Fund (or Interstate Tax Exempt Fund). Federated also offers cash management features, including check writing and debit card access. Details are available through your investment counselor.

We will continue to keep you apprised of events as they develop. We again thank you for your patience and trust.

For further information, please contact your investment counselor. In addition, you are encouraged to access the Reserve Funds' website at either www.ther.com; www.reservefunds.com and the U.S. Securities and Exchange Commission's website at www.sec.gov.

January 29, 2010