FREQUENTLY ASKED QUESTIONS
Primary Fund and Yield Plus Fund Tax Classification Changes

1. What is happening?

In order to facilitate the continued liquidation and distribution of remaining assets to shareholders and avoid potentially adverse tax consequences, the Reserve Primary Fund and the Reserve Yield Plus Fund have each changed their tax classification for purposes of the Internal Revenue Code of 1986, as amended (the "Tax Code").

The Funds were classified as associations taxed as corporations. In order to continue to avoid taxation at the Fund level, each Fund needed to completely liquidate for tax purposes within two years of its Board's decision to liquidate. Because all matters regarding the Funds were not fully resolved prior to the two-year anniversary of the vote to liquidate, each Fund changed its tax status from "corporation" to "pass through" taxation. This change was accomplished by each Fund making a filing on Form 8832 ("entity classification election") to "check the box" as to its entity taxation classification. *No shareholder action is required.* By filing the entity classification election and checking the box to elect pass-through tax treatment, each Fund will be considered to have "liquidated" for tax purposes.

2. Will the Fund continue to provide me the necessary documentation so I can properly file my taxes?

Yes. Shareholders will continue to receive IRS Form 1099s. In the event that you hold your shares in the Fund through an intermediary, you may receive your Form 1099s from that intermediary rather than from the Fund.

3. Will this change affect the timing of any remaining distribution of assets?

No.

4. What other actions have the Funds taken in conjunction with the tax classification change?

Each Fund amended its Declaration of Trust to add the words "in liquidation" to its name and to provide that the activities of the Fund will be limited to actions consistent with the conservation of Fund assets in preparation for its final liquidation and the distribution of any remaining net assets (after payment of liabilities) to shareholders. Among other things, the amended Declarations of Trust provide that the Funds are limited to holding exclusively cash and cash equivalents.

5. When did the tax classification change occur?

Each Fund filed its entity classification election for pass-through tax treatment during the week of August 30, 2010.

6. Does the classification change have any tax consequences for shareholders?

Yes. By filing the entity reclassification election and checking the box to elect pass-through tax treatment, each Fund should be deemed for tax purposes to have liquidated as a regulated investment company under the Tax Code. *It is expected that in most cases taxable shareholders should be able to recognize a loss for tax purposes*.

7. How will the expected initial taxable loss be calculated?

Shareholders should recognize a loss for tax purposes equal to their original cost basis in the shares of a Fund, generally $1.00 per share, less the total amount of the "payments received."

A shareholder's total amount of "payments received" includes the total amount of prior liquidating distributions received (*i.e.*, the distributions the shareholder has received from a Fund since the decision to liquidate), plus the shareholder's share of the remaining net asset value of the Fund, and the amount of contingent liabilities not accrued for tax purposes. (Contingent liabilities include liabilities for which amounts are not presently accrued for tax purposes but that may or may not be recognized in the future. A Fund's obligation to indemnify its officers or trustees for liabilities associated with their service as such is an example of a contingent liability. A non-contingent liability is a Fund expense that the Fund has already accrued and expects to pay. A Fund's contractual obligations to its service providers are examples of non-contingent liabilities.)

The Funds will inform shareholders of the amount of proceeds deemed distributed to them (*i.e.*, the "payments received") as a result of the classification change on their year 2010 Form 1099.

8. Can you give me an example of how the expected initial tax loss will be calculated?

Let's assume, **solely for purposes of illustration,** that your original tax basis in one share of a Fund is $1.00, and that, as of the date of the classification change, the Fund has made previous liquidating distributions in the amount of $0.99 (or 99 cents) per share and has a remaining net asset value per share of $0.002 (or 0.2 cents) per share. Further, assume that the $0.002 of net asset value is comprised of $0.006 (or 0.6 cents) per share of gross assets (*e.g.,* cash and securities held) offset by $0.003 (or 0.3 cents) of non-contingent liabilities and $0.001 (0.1 cents) of contingent liabilities.

In this example, as of the re-classification date, a shareholder would, for federal income tax purposes, be deemed to have "payments received" totaling $0.993 per share (99.3

cents per share). This is comprised of previous liquidating distributions totaling 99 cents per share, paid prior to the re-classification date, plus a "deemed" distribution of the value of the shareholder's share of the contingent liabilities of $0.001 per share, plus the remaining $0.002 per share of net assets ($0.99 plus $0.001 plus $0.002= $0.993). Accordingly, a shareholder holding 1,000 shares of the Fund in this example would recognize a tax loss of $7 as of the date of classification change.

THIS IS A HYPOTHETICAL EXAMPLE ONLY. DO NOT USE THESE SAMPLE NUMBERS FOR YOUR TAX REPORTING. PLEASE CONSULT YOUR PERSONAL TAX ADVISOR. It is important to remember that these are not actual numbers. Also, neither the Funds nor their investment adviser, Reserve Management Company, Inc., or any of their other respective affiliates or subsidiaries, are authorized to provide you with tax advice. Shareholders should contact their personal tax advisors for questions about their individual tax situations.

9. How will a Fund's receipt of interest payments, if any, on the assets it holds affect my tax situation?

As a Fund accrues interest income from its investments in cash equivalents, the income will pass through to the shareholders for tax purposes in proportion to their interest in the Fund, *regardless of whether the Fund makes any additional monetary payments to its shareholders*. Each shareholder will recognize as income for tax purposes a proportionate share of the amount of interest income accrued by the Fund regardless of whether the shareholder actually receives a distribution of the interest from the Fund at that time. Any Fund distribution of the interest income to the shareholders, however, will not be further taxable to them (as the income will be allocable to the shareholders when the *Fund* accrues the interest income).

10. How will further distributions, if any, affect my tax situation?

Subsequent distributions by the Funds generally are expected to be treated as non-taxable "returns of capital."

11. How will the payment of additional non-contingent liabilities, if any, affect my tax situation?

The payment of any additional non-contingent liabilities by a Fund would pass through to shareholders in proportion to their interest in the Fund as an investment expense. These expenses, in general, would be subject to the deductibility limitations for the shareholder's miscellaneous itemized deductions.

12. How will the Fund's payment of contingent liabilities, if any, affect my tax situation?

The accrual and/or payment of liabilities that are contingent at the time of the classification change by a Fund would be fully passed through to shareholders, likely as a capital loss.

Using our example above, if the Fund is required to pay $0.001 (or 0.1 cents) per share of the contingent liabilities which had been provided for as of the re-classification date, then a shareholder would recognize a $0.001 (or 0.1 cents) per share loss upon the Fund's accruing of the liability for tax purposes. It is expected that such a loss would be a capital loss. This capital loss would be in addition to the capital loss recognized at the time of the classification change, as explained above.

It is possible that the accrual of additional non-contingent or contingent liabilities by a Fund after the re-classification date may result in ordinary losses for a shareholder. In such case, the loss would generate miscellaneous itemized deductions for the shareholder, potentially subject to limitations on deductibility by shareholders.

13. What if I hold my shares in a tax-deferred account?

Fund shares held in tax-deferred accounts, such as individual retirement accounts, pension plans or 401(k)s, will not be affected by the tax classification change of the Fund.

September 3, 2010