



The U.S. Government Fund Plan of Liquidation and Distribution of Assets

The Board of Trustees (the “Board”) of The Reserve Fund (the “Trust”) has adopted the following Plan to effect the orderly liquidation of assets of the U.S. Government Fund (the “Fund”) and the distribution of those assets in a fair and equitable manner. The Plan will be implemented subject to the supervision of the Securities and Exchange Commission (the “Commission”), as required by the terms of an exemptive order issued by the Commission on September 22, 2008.

PREAMBLE

The Trust is a Massachusetts business trust and is governed by a Declaration of Trust (the “Declaration”). Shareholders of the Fund placed redemption orders from September 15, 2008 to the date hereof representing substantially all of the assets of the Fund. The Fund made no distributions since it suspended redemptions on September 17, 2008, except its \$4.5 billion initial distribution on November 13, 2008 and the ACH, debit card, and check writing transactions referred to below. The Board, including trustees who are not interested persons of the Trust, unanimously determined that it was in the best interest of the Fund and its shareholders to liquidate the assets of the Fund and to distribute those assets in the manner provided in the Declaration¹ and in this Plan.

The Board formed the view, after consultation with Reserve Management Company Inc. (the Fund’s investment adviser (“RMCI”)), that sales of Fund holdings at available market prices would result in a material loss of principal. As a result, the Board did not believe that it was in the best interest of the Fund’s shareholders to sell Fund holdings at available market prices in order to provide liquidity. Rather, the Board determined to liquidate Fund assets in accordance with this Plan, including through the letter agreement with the U.S. Department of the Treasury (“Treasury”) described below, in order to maximize the amount received by the Fund on the disposition of assets. In making this determination, the Board considered the Fund’s primary investment objectives of preservation of capital and share liquidity, and the fact that such objectives were in conflict because of the market conditions affecting Fund holdings.

¹ Under Article NINTH, Section 4(b) of the Declaration, either the Board or the shareholders are authorized to liquidate the Fund. Upon making provisions for the payment of all outstanding obligations, taxes and other liabilities, accrued or contingent, the Board is required by the Declaration to distribute the remaining assets of the Fund ratably among the holders of the outstanding shares of the Fund. Further, under Article FOURTH, Section 2(f) of the Declaration, the Board is authorized to abolish the Fund and under Section 2(e), upon liquidation or termination of the Fund, the shareholders are entitled to receive a pro rata share of the net assets of the Fund.



The Reserve

ASSET ACCUMULATION

The Trust, on behalf of the Fund, entered into a Letter Agreement with the Treasury dated November 19, 2008 (the “Letter Agreement”).² Pursuant to the Letter Agreement, the Fund was required to use its best efforts to sell or otherwise dispose of all of its portfolio securities at a price at or above amortized cost by January 3, 2009. The Treasury, through the Exchange Stabilization Fund (“ESF”), agreed to purchase any portfolio securities remaining (the “Remaining Securities”) in the Fund after January 3, 2009 at a purchase price equal to the aggregate amortized cost of such Remaining Securities (the “Purchase Price”) as described in the Letter Agreement, subject to certain conditions. The closing of this transaction is scheduled to occur on January 15, 2009 and the distribution will commence on January 16, 2009.

Pursuant to the Letter Agreement, assets accumulated prior to the sale of portfolio securities to the ESF could be invested only in: (i) U.S. Treasury bills with a maturity not to exceed 30 days; (ii) overnight time deposits of U.S. or non-U.S. banks whose short-term debt securities are First Tier Securities and Rated Securities (as defined in Rule 2a-7 under the Investment Company Act of 1940); and (iii) overnight repurchase agreements “collateralized fully” (as defined in Rule 5b-3 under the Investment Company Act of 1940) by U.S. Government securities (collectively “Cash Equivalents”). RMCI could not purchase any other investments for the Fund. In investing accumulated cash in Cash Equivalents, RMCI generally selected maturities of at least one day prior to the anticipated date on which the Fund would make a distribution to its shareholders.

All Fund assets, including cash accumulated pursuant to this Plan, remain in the custody of the Fund’s custodian, as required by the Investment Company Act of 1940, until paid to shareholders.

As of the close of business on January 15, 2009, the Fund had net assets in the amount of approximately \$6.35 billion.

DISTRIBUTIONS

Cash, including any net income received by the Fund from its portfolio securities, is to be distributed to shareholders on a pro rata basis. Following settlement of the sale of the Remaining Securities to the ESF, the Fund will commence distribution of the proceeds received from the sale (*i.e.*, the Purchase Price) and its remaining cash to shareholders (net of accrued

² A copy of the Letter Agreement can be found on the Treasury’s website at <http://www.ustreas.gov/press/releases/hp1286.htm>.



Fund expenses)³ within one day of receipt of the Purchase Price.

Prior to and subsequent to the initial distribution, an independent registered public accounting firm was engaged to perform agreed-upon procedures to assist the Board and the Fund's management in their evaluation of the accuracy of the distribution pursuant to the distribution approach as contemplated herein. The performance of these agreed-upon procedures was not an examination by the independent registered public accounting firm, the objective of which would be an expression of an opinion as to the accuracy of the distribution. Thus, the independent registered public accounting firm did not express such an opinion. The report issued by the independent registered public accounting firm was solely for the information and use of the Board and the Fund's management, and was not intended to be and should not be used by anyone other than these specified parties. The Board and the Fund's management are responsible for the distribution.

Substantially similar agreed-upon procedures will be performed by the independent registered public accounting firm, both before and after the Fund's final distribution to shareholders. The report to be issued by the independent registered public accounting firm is solely for the information and use of the Board and the Fund's management, and is not intended to be and should not be used by anyone other than these specified parties.

Amounts payable to shareholders that have received redemption proceeds through ACH wires, debit card transactions or check writing were reduced dollar-for-dollar by amounts paid to them on and after September 15, 2008.

REPORTING

RMCI has and will continue to report to the Board regarding material communications from Fund shareholders received by RMCI or its affiliates, and its response thereto. RMCI will make copies of all written communications available to the Board upon request.

DEFINITIONS

For purposes of this Plan, the following definitions apply:

“amortized cost” of a security shall mean the acquisition cost of a security, as

³ Under the Letter Agreement, RMCI agreed to waive the payment of all fees due under its Investment Management Agreement and the Trustees agreed to waive the payment of all Trustee's fees that accrue on and after November 19, 2008 to the extent that (i) such fees exceed the amount of income earned and received by the Fund after September 14, 2008 that has not been distributed, or set aside for distribution, to Fund shareholders and (ii) Fund shareholders have not received distributions of at least \$1.00 per share after September 14, 2008 (after giving effect to the distribution of the Purchase Price proceeds to Fund shareholders).



adjusted for the amortization of premium or the accretion of discount, plus accrued but unpaid interest.

“pro rata” means the proportion that unfunded shares held by a shareholder bears to the aggregate unfunded shares of all shareholders.

AMENDMENT

This Plan can be amended from time to time by the Board, in its absolute discretion, provided that notice of any material changes shall be provided to shareholders (by means of a website posting) and to the Commission prior to implementation.

Dated: January 15, 2009