

July 1, 2009

PROSPECTUS

T. ROWE PRICE

California Tax-Free Money Fund

California Tax-Free Bond Fund

A money market fund and a long-term bond fund seeking income exempt from federal and California state income taxes.



The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

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Founded in 1937 by the late Thomas Rowe Price, Jr., T. Rowe Price Associates, Inc. (T. Rowe Price), and its affiliates managed \$268.8 billion, including over \$9 billion in municipal fixed-income assets, for more than 11 million individual and institutional investor accounts as of March 31, 2009. T. Rowe Price is the funds' investment manager.

Mutual fund shares are not deposits or obligations of, or guaranteed by, any depository institution. Shares are not insured by the FDIC, Federal Reserve, or any other government agency, and are subject to investment risks, including possible loss of the principal amount invested.

T. Rowe Price California Tax-Free Income Trust

California Tax-Free Money Fund – PCTXX

California Tax-Free Bond Fund – PRXCX

OBJECTIVE, STRATEGY, RISKS, AND EXPENSES

What is each fund's objective?

Money Fund seeks to provide preservation of capital, liquidity, and, consistent with these objectives, the highest level of income exempt from federal and California state income taxes.

Bond Fund seeks to provide, consistent with prudent portfolio management, the highest level of income exempt from federal and California state income taxes by investing primarily in investment-grade California municipal bonds.

What is each fund's principal investment strategy?

Money Fund will invest at least 65% of its total assets in California municipal securities, and at least 80% of the fund's income is expected to be exempt from federal and California state income taxes. All securities held by the fund will mature in 13 months or less, and the fund's weighted average maturity will not exceed 90 days. While the fund's yield will fluctuate with changes in interest rates, its share price is managed to remain stable at \$1.00. The fund buys securities rated within the two highest short-term rating categories assigned by established rating agencies or, if unrated, deemed to be of comparable quality by T. Rowe Price. All securities purchased by the fund will present minimal credit risks in the opinion of T. Rowe Price.

Bond Fund will invest so that, under normal market conditions, at least 80% of its net assets are invested in bonds that pay interest exempt from federal and California state income taxes, and at least 80% of the fund's income is exempt from federal and California state income taxes. The fund's weighted average maturity is expected to exceed 10 years. The fund will generally purchase investment-grade securities, which means their ratings are within the four highest credit categories (for example, AAA, AA, A, or BBB) as determined by at least one nationally recognized credit rating agency or, if unrated, deemed to be of comparable quality by T. Rowe Price. The fund may occasionally purchase below investment-grade securities (including those with the lowest or no rating),

but no such purchase will be made if it would cause the fund's noninvestment-grade bonds to exceed 10% of its total assets. The fund may invest in bonds whose income must be included in the calculation of alternative minimum tax.

In selecting securities for the money fund, the fund manager may examine relationships among yields of various types and maturities of money market securities in the context of the outlook for interest rates. Similarly, investment decisions for the bond fund reflect the manager's outlook for interest rates and the economy, as well as the prices and yields of various securities. This approach is designed to help the managers capture appreciation opportunities when rates are falling and reduce the impact of falling prices when rates are rising. For example, if we expect rates to fall, we may buy longer-term securities within each fund's maturity range to provide higher yield (and, in the case of the bond fund, greater appreciation) potential. Conversely, shorter-term maturities may be favored if rates are expected to rise. And if our economic outlook is positive, we may take advantage of the bond fund's 10% "basket" for noninvestment-grade bonds. From time to time, each fund may invest a significant portion of its assets in sectors with special risks, such as hospital, electric utility, or private activity bonds. The funds may sell holdings for a variety of reasons, such as to adjust a portfolio's average maturity, duration, or credit quality or to shift assets into or out of higher-yielding securities.

Each fund sometimes invests in obligations of the commonwealth of Puerto Rico and its public corporations (as well as the U.S. territories of Guam and the Virgin Islands) that are exempt from federal and California state income taxes. These securities are generally purchased when they offer a comparably attractive combination of risk and return.

Due to seasonal variations in the supply of suitable California securities, each fund may invest in municipals whose interest is exempt from federal but not California state income taxes. Every effort will be made to minimize such investments, but they could compose up to 10% of each fund's annual income.

While most assets will be invested in municipal securities, the funds may invest in other securities and use derivatives, including futures and swaps, in keeping with fund objectives.

Certain investment restrictions, such as a required minimum or maximum investment in a particular type of security, are measured at the time each fund purchases a security. The status, market value, maturity, credit quality, or other characteristics of each fund's securities may change after they are purchased, and this may cause the amount of each fund's assets invested in such securities to exceed the stated maximum restriction or fall below the stated minimum restriction. If any of these changes occur, it would not be considered a violation of the

investment restriction. However, purchases by the fund during the time it is above or below the stated percentage restriction would be made in compliance with applicable restrictions.

- ▶ ***Income from California municipal securities is generally exempt from federal and California state income taxes.***

What are the main risks of investing in the funds?

Any of the following could cause a decline in your fund's share price or income.

- **Interest rate risk** This risk refers to the rise in interest rates that accompanies a decline in bond prices. (Bond prices and interest rates usually move in opposite directions.) Generally, the longer the maturity of a fund or security, the greater its interest rate risk.

While a rise in rates is the principal source of interest rate risk for bond funds, falling rates bring the possibility that a bond may be "called," or redeemed before maturity, and that the proceeds may be reinvested in lower-yielding securities.

- **Credit risk** This is the chance that an issuer of a fixed-income security held by a fund will default (fail to make scheduled interest or principal payments), potentially reducing the fund's income and share price. This risk is increased when a portfolio security is downgraded or the perceived creditworthiness of an issuer or counterparty deteriorates. With respect to municipal issuers, economic downturns often result in reduced levels of taxes collected and revenues earned for municipalities. This, in turn, lessens the financial strength of a municipality and increases the credit risk of the securities it issues. This risk is reduced for the money fund because of the highly rated securities in its portfolio.

As of April 1, 2009, the general obligation bonds of the state of California were rated A2 by Moody's, A by Standard & Poor's (S&P), and A by Fitch. All three rating agencies have assigned stable outlooks.

Each fund may invest a significant portion of assets in securities that are not general obligations of the state. These may be issued by local governments or public authorities and are rated according to their particular creditworthiness, which may vary significantly from the state's general obligations.

Due to a variety of factors, many local California municipals, as well as bonds issued by the state, have experienced rating volatility, with downgrades during 2001-2003, upgrades between 2004 and 2006, and subsequent downward pressures over the last two years.

While generally considered to be of medium quality, securities in the BBB category may be more susceptible to adverse economic or investing conditions than higher-rated securities, and some BBB securities have speculative characteristics. We may retain a security whose credit quality is downgraded after the security is purchased.

▶ ***Significant political and economic developments within a state may have direct and indirect repercussions on virtually all municipal bonds issued in the state.***

- **Geographical risk** A fund investing within a single state is, by definition, less diversified geographically than one investing across many states and, therefore, has greater exposure to adverse economic and political conditions within that state.
- **Political and legislative risk** The municipal securities market could be significantly affected by adverse political and legislative changes or litigation at the federal or state level. The value of municipal bonds (and funds investing in them) is strongly influenced by the value of tax-exempt income to investors. A significant restructuring of federal income tax rates, or even serious discussion on this topic by the federal government, could cause municipal bond prices to fall as lower income tax rates would reduce the advantage of owning municipals. Lower state income tax rates could have a similar effect.
- **Liquidity risk** This is the chance that a fund may not be able to sell securities at desired prices. Sectors of the bond market can experience sudden downturns in trading activity. During periods of reduced trading, the spread can widen between the price at which a security can be bought and the price at which it can be sold. Less liquid securities can become more difficult to value and can change prices abruptly. During times of reduced market liquidity, a fund may not be able to sell bonds readily at prices that reflect what the fund believes they should be worth.

Liquidity in the municipal bond market has been reduced as a result of overall economic conditions and credit tightening. Municipal bonds are not traded via a centralized exchange. Instead, they are traded in the “over-the-counter” market among dealers and brokers that connect buyers with sellers. The liquidity in the municipal market has suffered from a decrease in the number of bond dealers and the downgrading of certain municipal bond insurers. In addition, sales of large blocks of municipal bonds by institutional investors can further reduce market liquidity and bond prices.

- **Other risks** Certain sectors of the municipal bond market have special risks and can be adversely affected by changes in regulations. For example, hospital bonds have been hurt by changes in Medicare reimbursement rates, electric utilities are subject to governmental rate regulation, and private activity bonds are not government backed. Prices of municipal securities may be affected by major

changes in cash flows into or out of municipal funds or sales of large blocks of bonds by funds and other market participants. For example, substantial and sustained redemptions from municipal bond funds could result in lower prices for these securities.

Fund investments in the commonwealth of Puerto Rico and its public corporations (as well as the U.S. territories of Guam and the Virgin Islands) require careful assessment of certain risk factors, including reliance on substantial federal assistance and favorable tax programs that are subject to phaseout by Congress. The impact of these phaseouts on companies doing business in Puerto Rico is uncertain.

- **Derivatives risk (bond fund)** To the extent the fund uses futures, swaps, and other derivatives, it is exposed to additional volatility and potential losses.
- **Risks of the money fund** An investment in the money market fund is not insured or guaranteed by the FDIC or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund. For example, a sharp and unexpected rise in interest rates in an unusually short time or the default of a portfolio security could cause the fund's NAV to fall below \$1.00. However, the fund has maintained a constant share price since its inception, and the fund will make every effort to continue to meet this objective. In addition, through September 18, 2009, the fund is participating in the U.S. Treasury Department's Temporary Guarantee Program for Money Market Funds, as described below.

As with any mutual fund, there can be no guarantee the funds will achieve their objectives.

- ▶ ***The income level of the funds will fluctuate with changing market conditions and interest rate levels. The bond fund's share price will also fluctuate; when you sell your shares, you may lose money.***

Participation in Treasury Department Temporary Guarantee Program

The Money Fund is participating in the Temporary Guarantee Program for Money Market Funds ("Program") established by the U.S. Treasury Department. The Program's guarantee only covers shareholders in participating money market funds as of the close of business on September 19, 2008 ("Eligible Shareholders") and does not protect new shareholders after that date. Subject to certain conditions and limitations, the Program guarantees that Eligible Shareholders will receive \$1.00 for each money market share held. The guarantee applies if a participating money market fund's net asset value per share falls below \$0.995 and the fund decides to liquidate ("Guarantee Event"). Upon declaration of a Guarantee Event, a fund must stop accepting purchases, suspend redemptions, cease the declaration and payment of dividends, and proceed to liquidate.

The number of shares guaranteed under the Program for each Eligible Shareholder is the lesser of (1) the number of shares owned on September 19, 2008, or (2) the number of shares owned when a Guarantee Event occurs. In addition, Eligible Shareholders could lose coverage under the Program if they close their account or change their account registration. Upon any money market fund liquidation pursuant to the Program, shares not covered under the Program will receive only the fund's net asset value per share, which may be less than \$1.00. Payments under the Program are subject to an overall limit of approximately \$50 billion for all money market funds participating in the Program.

The Money Fund has participated in the Program since the Program's inception and its participation will end on September 18, 2009. Participation in each term of the Program required payment of a fee to the U.S. Treasury Department. The cost to participate is borne by the fund and is not subject to the expense limitation in effect for the fund.

The participation fee paid by the fund for the initial three-month term of the Program (September 19, 2008 through December 18, 2008) was 0.01% of its net assets as of the close of business on September 19, 2008. The participation fee for the first extension of the Program (December 19, 2008 through April 30, 2009) was 0.015% of its net assets as of the close of business on September 19, 2008, and the fee for the second extension of the Program (May 1, 2009 through September 18, 2009) was 0.015% of its net assets as of the close of business on September 19, 2008.

How can I tell which fund is more appropriate for me?

Consider your investment goals, your time horizon for achieving them, and your tolerance for risk. The funds can be used to generate income or to diversify a stock portfolio. The higher your tax bracket, the more likely tax-exempt securities are appropriate. If you are investing for higher tax-free income and can accept the possibility of price declines in an effort to achieve income exempt from federal and California state income taxes, the bond fund could be an appropriate part of your overall investment strategy. If you are investing for tax-free income with principal stability and liquidity, you should consider the money market fund.

The funds are inappropriate for tax-deferred accounts, such as an individual retirement account (IRA).

- ▶ ***The fund or funds you select should not represent your complete investment program or be used for short-term trading purposes.***

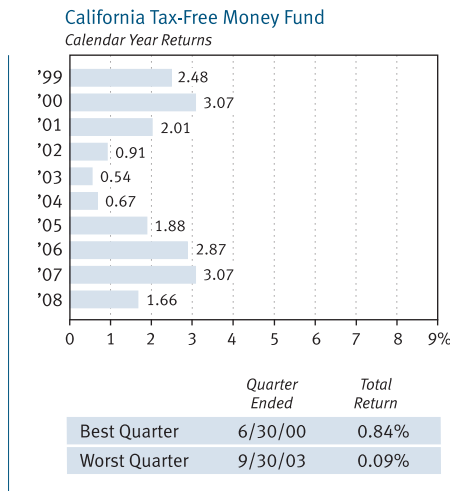
How has each fund performed in the past?

The bar charts showing calendar year returns and the average annual total returns table indicate risk by illustrating how much returns can differ from one year to the next and how fund performance compares with that of a comparable market index. Past fund returns (before and after taxes) are not an indication of future performance.

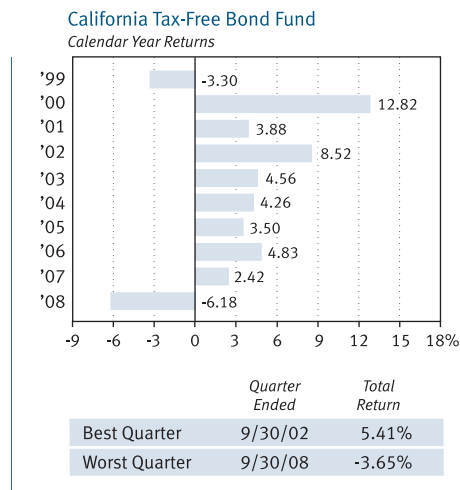
The funds can also experience short-term performance swings, as shown by the best and worst calendar quarter returns during the years depicted.

In addition, the average annual total returns table shows hypothetical after-tax returns to suggest how taxes paid by a shareholder may influence returns. Actual after-tax returns depend on each investor's situation and may differ from those shown. After-tax returns are not relevant if the shares are held in a tax-deferred account, such as a 401(k) account or IRA. During periods of fund losses, the post-liquidation after-tax return may exceed the funds' other returns because the loss generates a tax benefit that is factored into the result.

Updated performance information is available through troweprice.com or may be obtained by calling 1-800-225-5132.



The fund's return for the three months ended 3/31/09 was 0.08%.



The fund's return for the three months ended 3/31/09 was 4.39%.

Table 1 Average Annual Total Returns

	<i>Periods ended December 31, 2008</i>		
	<i>1 year</i>	<i>5 years</i>	<i>10 years</i>
Money Fund	1.66%	2.03%	1.91%
<i>Lipper California Tax-Exempt Money Market Funds Average</i>	1.63	2.00	1.91
Bond Fund			
<i>Returns before taxes</i>	-6.18	1.68	3.41
<i>Returns after taxes on distributions</i>	-6.18	1.68	3.40
<i>Returns after taxes on distributions and sale of fund shares</i>	-2.47	2.12	3.60
<i>Barclays Capital Municipal Bond Index</i>	-2.47	2.71	4.26
<i>Lipper California Municipal Debt Funds Average</i>	-11.53	0.29	2.43

Returns are based on changes in principal value, reinvested dividends, and capital gain distributions, if any. *Returns before taxes* do not reflect effects of any income or capital gains taxes. Taxes are computed using the highest federal income tax rate. The after-tax returns reflect the rates applicable to ordinary and qualified dividends and capital gains effective in 2003. The returns do not reflect the impact of state and local taxes. *Returns after taxes on distributions* reflect the taxed return on the payment of dividends and capital gains. *Returns after taxes on distributions and sale of fund shares* assume the shares were sold at period-end and, therefore, are also adjusted for any capital gains or losses incurred by the shareholder. *Market indexes* do not include expenses, which are deducted from fund returns, or taxes.

Money funds are not required to show after-tax returns.

Barclays Capital Municipal Bond Index (formerly the Lehman Brothers Municipal Bond Index) is an unmanaged index that tracks municipal debt instruments.

What fees and expenses will I pay?

The shares that are offered in this prospectus are 100% no load. There are no fees or charges to buy or sell fund shares, reinvest dividends, or exchange into other T. Rowe Price funds. There are no 12b-1 fees.

Table 2 Fees and Expenses of the Funds*

<i>Fund</i>	<i>Annual fund operating expenses (expenses that are deducted from fund assets)</i>				
	<i>Management fee</i>	<i>Other expenses</i>	<i>Total annual fund operating expenses</i>	<i>Fee waiver/expense reimbursement</i>	<i>Net expenses</i>
Money	0.41% ^a	0.22%	0.63%	0.06% ^b	0.57% ^b
Bond	0.41	0.11	0.52	—	—

* Redemption proceeds of less than \$5,000 sent by wire are subject to a \$5 fee paid to the fund. Accounts with less than a \$2,000 balance (with certain exceptions) are subject to a \$10 fee. See Account Maintenance and Small Account Fees.

- ^a To the extent necessary to maintain a net yield of 0.00% on any day that a dividend is declared, T. Rowe Price may voluntarily waive all or a portion of the management fee it is entitled to receive from the fund for that day. This voluntary waiver is in addition to the contractual expense ratio limitation in effect for the fund. T. Rowe Price may amend or terminate this voluntary waiver of its management fee at any time without prior notice.
- ^b Effective July 1, 2009, T. Rowe Price contractually obligated itself (through June 30, 2011), to waive its fees and/or bear any expenses that would cause the ratio of expenses to average net assets to exceed 0.55%. Expenses paid or assumed or fees waived under this agreement are subject to reimbursement to T. Rowe Price whenever the fund's expense ratio is below 0.55%; however, no reimbursement will be made more than three years after any waiver or payment, or if it would result in the expense ratio exceeding 0.55%. Any amounts reimbursed will have the effect of increasing fees otherwise paid by the fund. The fund operated under previous expense limitations for which T. Rowe Price may be reimbursed. Net expenses includes the fee of 0.02% paid by the fund to participate in the U.S. Treasury Department's Temporary Guarantee Program for Money Market Funds (as described on pages 5 and 6). The participation fee is not subject to the expense limitation in effect for the fund.

Note: The expenses in the fee table above are as of a fund's prior fiscal year-end (February 28). In periods of market volatility, assets may decline significantly, causing total annual fund operating expenses to become higher than the numbers shown in the fee table.

Example. The following table gives you an idea of how expense ratios may translate into dollars and helps you to compare the cost of investing in these funds with that of other mutual funds. Although your actual costs may be higher or lower, the table shows how much you would pay if operating expenses remain the same, the expense limitation currently in place is not renewed (if applicable), you invest \$10,000, earn a 5% annual return, hold the investment for the following periods, and then redeem:

<i>Fund</i>	<i>1 year</i>	<i>3 years</i>	<i>5 years</i>	<i>10 years</i>
Money	\$57	\$182	\$327	\$749
Bond	53	167	291	653

OTHER INFORMATION ABOUT THE FUNDS

What are the funds potential rewards?

The regular income dividends you receive from the funds should be exempt from federal income taxes and also be exempt from California state taxes for shareholders who live in California.

Money Fund is expected to provide tax-free income consistent with price stability.

Bond Fund is expected to provide higher income than the Money Fund but with share price volatility.

How does the portfolio manager try to reduce risk?

Consistent with each fund's objective, the portfolio manager uses various tools to try to reduce risk and increase total return, including:

- Diversification of assets to reduce the impact of a single holding or sector on a fund's net asset value.
- Thorough credit research by our own analysts.
- Adjustment of the duration of a fund's portfolio to try to reduce the drop in price when interest rates rise or to benefit from the rise in price when rates fall. Duration is a measure of a fund's sensitivity to interest rate changes.

What is the credit quality of California general obligations?

As of April 1, 2009, the state's general obligation bonds were rated A2 by Moody's and A by S&P and Fitch. In February 2009, S&P lowered their rating from A+ to A with a stable outlook. In March 2009, Moody's and Fitch downgraded their ratings from A1 to A2 and from A+ to A, respectively, but changed their outlooks from negative to stable.

California's economy experienced substantial growth during the latter part of the 1990s due to the success of its high-technology firms. A sharp collapse in that sector from 2000 through 2002, however, caused local unemployment rates to jump and state revenues to plunge, partly from lower income tax receipts on lower bonus income and partly from lower capital gains from reduced option income. In addition, a flawed electricity deregulation plan exposed the state's industries and consumers to substantially higher energy costs. Restrictions on taxes and spending, such as Proposition 13 and Article XIIB of the state's constitution, have resulted in a broad shift by local governments toward lease revenue financing, a structure generally regarded as less secure since it is serviced by annual appropriations rather than a direct pledge of tax revenues. Future voter initiatives could further pressure state and local governments in their efforts to raise revenues or reduce expenditures. More recently, over the last year, California, like the nation, has been experiencing an economic recession highlighted by falling home prices, increased job losses, and reduced consumer spending, among other factors.

- ▶ ***Credit ratings and the financial and economic conditions of the state and local governments, public authorities, or others in which each fund may invest are subject to change at any time.***

What about the quality of the funds' other holdings?

In addition to the state's general obligations, the funds will invest a significant portion of assets in bonds issued by local governments and public authorities. These issuers generally have their own revenue sources separate from the state and are evaluated for their creditworthiness independently of the state. Even so,

local governments remain subject to state actions and could experience budget shortfalls due to reallocations of tax revenues or the imposition of additional responsibilities. This was the case in the early 1990s when the state, struggling to achieve fiscal balance, increased the responsibilities of local governments even as their resources declined. The combination resulted in the downgrade of many large counties and other local governments through the middle part of the decade. During the technology sector downturn in the early 2000s, the state borrowed from its localities by delaying payments, essentially pushing its fiscal burden down to cities and counties.

Certain fund holdings do not rely on any government for money to service their debt. Bonds issued by governmental authorities may depend wholly on revenues generated by the project they financed or on other dedicated revenue streams. The credit quality of these “revenue” bonds may vary from that of the state’s general obligations.

As of April 1, 2009, the commonwealth of Puerto Rico’s general obligation bonds were rated BBB- by S&P and Baa3 by Moody’s. Fitch does not rate Puerto Rico’s general obligation debt. S&P and Moody’s have both assigned a stable outlook. The credit ratings largely reflect Puerto Rico’s weak economy, strained financial position, and high debt levels.

Is there other information I can review before making a decision?

Investment Policies and Practices in Section 3 discusses various types of portfolio securities the funds may purchase as well as types of management practices the funds may use.

The Statement of Additional Information contains more detailed information about each fund and its investments, operations, and expenses.

SOME CHARACTERISTICS OF MUNICIPAL SECURITIES

Who issues municipal securities?

State and local governments and governmental authorities sell notes and bonds (usually called “municipals”) to pay for public projects and services.

Who buys municipal securities?

Individuals are the primary investors and a principal way they invest is through mutual funds. Institutional investors such as corporations and other taxable entities also purchase municipals.

What is tax-free about municipals and municipal funds?

The regular income dividends you receive are typically exempt from regular federal income taxes. These dividends should also be exempt from your state and local income taxes (if any). However, fund capital gain distributions are taxable to you. (Please see Useful Information on Distributions and Taxes—Taxes on Fund Distributions.)

- ▶ ***Municipal securities are also called “tax-exempts” because the interest income they provide is usually exempt from federal income taxes.***

Is interest income from municipal issues always exempt from federal taxes?

No. Since 1986 and until recently, income from so-called “private activity” municipals has been subject to the federal alternative minimum tax (AMT). For instance, some bonds financing airports, stadiums, and student loan programs fall into this category. These bonds typically carry higher yields than regular municipals. Shareholders subject to the AMT must include income derived from private activity bonds that are not exempt from AMT in their AMT calculation. Normally, the fund will not purchase a security if, as a result, more than 20% of the fund's income would be subject to the AMT. Private activity bonds that are issued in 2009 and 2010, as well as refunding bonds issued in 2009 and 2010 to refund private activity bonds that were issued from the beginning of 2004 through the end of 2008, are exempt from AMT. The portion of income subject to the AMT will be reported annually to shareholders. (Please see Useful Information on Distributions and Taxes—Tax Information.)

Additionally, under highly unusual circumstances, the IRS may determine that a bond issued as tax-exempt should in fact be taxable. If a fund were to hold such a bond, it might have to distribute taxable income or reclassify as taxable income previously distributed as tax-free.

Why are yields on municipals usually below those on otherwise comparable taxable securities?

Since the income generated by most municipals is exempt from federal taxation, investors are willing to accept lower yields on a municipal bond than on an otherwise similar (in quality and maturity) taxable bond.

How can I tell if a tax-free or taxable fund is suitable for me?

The primary factor to consider is your expected federal income tax rate, but state and local rates are also important. The higher your tax bracket, the more likely tax-exempts will be appropriate. If a municipal fund's tax-exempt yield is higher than the after-tax yield on a taxable bond or money fund, then your income will be higher in the municipal fund. To find what a taxable fund would have to yield to equal the yield on a municipal fund, divide the municipal fund's yield by one

minus your tax rate. For quick reference, the next table shows a range of taxable-equivalent yields based on federal tax rates only. If your state and local income tax rates were included, the taxable-equivalent yields would be higher.

Table 3 Taxable-Equivalent Yields

<i>If your</i>	<i>A tax-free yield of</i>						
<i>federal tax</i>	<i>1%</i>	<i>2%</i>	<i>3%</i>	<i>4%</i>	<i>5%</i>	<i>6%</i>	<i>7%</i>
<i>rate is:</i>	<i>equals a taxable yield of:</i>						
25%	1.3%	2.7%	4.0%	5.3%	6.7%	8.0%	9.3%
28%	1.4	2.8	4.2	5.6	6.9	8.3	9.7
33%	1.5	3.0	4.5	6.0	7.5	9.0	10.5
35%	1.5	3.1	4.6	6.2	7.7	9.2	10.8

SOME BASICS OF FIXED-INCOME INVESTING

Is a fund’s yield fixed or will it vary?

It will vary. A fund’s yield is a function of its income and share price. Since both income and share price will fluctuate, a fund’s yield will also vary. (Although money fund prices are stable, income is variable.)

Is yield the same as total return?

No. A fund’s yield is the annualized dividends earned for a given period (typically 30 days for bond funds and seven days for money funds), divided by the share price at the end of the period. A fund’s total return includes distributions from income and capital gains and the change in share price for a given period. A money fund’s yield more closely reflects the fund’s current earnings than does its total return.

What is credit quality and how does it affect yield?

Credit quality refers to an issuer’s expected ability to make all required interest and principal payments on time. Because highly rated issuers generally represent less risk, they can borrow at lower interest rates than less creditworthy issuers. Therefore, a fund investing in high-quality securities should have a lower yield than an otherwise comparable fund investing in lower-quality securities.

What is meant by a bond fund’s maturity?

Every bond has a stated maturity date when the issuer must repay the bond’s entire principal value to the investor. However, many bonds are “callable,” meaning their principal can be repaid before the stated maturity date. Bonds are

most likely to be called when interest rates are falling because the issuer can refinance at a lower rate, just as a homeowner refinances a mortgage. In that environment, a bond's "effective maturity" is usually its nearest call date.

A bond fund has no real maturity, but it does have a weighted average maturity and a weighted average effective maturity. Each of these numbers is an average of the stated or effective maturities of the underlying bonds, with each bond's maturity "weighted" by the percentage of fund assets it represents. (A fund's average effective maturity is calculated by reference to the nearest call dates or coupon reset dates of the underlying holdings.) Some funds target effective maturities rather than stated maturities when managing a fund to a certain average maturity, which provides additional flexibility in portfolio management.

What is meant by a bond fund's duration?

Duration is a calculation that seeks to measure the price sensitivity of a bond or a bond fund to changes in interest rates. It is expressed in years, like maturity, but it is a better indicator of price sensitivity than maturity because it takes into account the time value of cash flows generated over a bond's life. Future interest and principal payments are discounted to reflect their present value and then multiplied by the number of years the payments will be received to produce a value expressed in years—the duration. "Effective" duration takes into account call features and sinking fund payments that may shorten a bond's life.

Since duration can be computed for bond funds, you can estimate the effect of interest rate fluctuations on share prices by multiplying fund duration by an expected change in interest rates. For example, the price of a bond fund with a duration of five years would be expected to fall approximately 5% if rates rose by one percentage point. (A bond fund's duration is shown in its shareholder report.)

How is a municipal bond's price affected by changes in interest rates?

When interest rates rise, a bond's price usually falls, and vice versa. In general, the longer a bond's duration and/or maturity, the greater the price increase or decrease in response to a given change in interest rates, as shown in Table 4.

Table 4 How Interest Rate Changes May Affect Bond Prices

Bond maturity	Coupon	Price per \$1,000 of a Municipal Bond if Interest Rates:			
		Increase		Decrease	
		1 percent	2 percent	1 percent	2 percent
1 year	0.43%	\$990	\$980	\$1,010	\$1,020
3 years	1.23	971	943	1,030	1,061
5 years	1.84	954	910	1,049	1,100
10 years	2.93	918	845	1,090	1,189
20 years	4.25	878	779	1,145	1,314
30 years	4.54	856	750	1,182	1,402

The table reflects yields on AAA rated municipals as of April 30, 2009. This is an illustration and does not represent expected yields or share price changes of any T. Rowe Price fund.

What are the major differences between money funds and bond funds?

- **Price** Money funds are managed to maintain a stable share price. Bond funds have fluctuating share prices and present a greater risk of loss of principal.
- **Maturity** Short- and intermediate-term bond funds have longer average maturities (from one to 10 years) than money funds (90 days or less). Longer-term bond funds have the longest average maturities (10 years or more).
- **Income** Short- and intermediate-term bond funds typically generate more income but present greater risk than money funds and less income and risk than longer-term bond funds.

Do money market securities react to changes in interest rates?

Yes. As interest rates change, the prices of money market securities fluctuate, but changes are usually small because of their very short maturities. Investments are typically held until maturity in a money fund to help the fund maintain a \$1.00 share price.

- ▶ **With one quick sign-up, you can take advantage of our Electronic Delivery program and begin to receive updated fund reports and prospectuses online rather than through the mail. Log in to your account at troweprice.com today for more information.**

As a T. Rowe Price shareholder, you will want to know about the following policies and procedures that apply to the T. Rowe Price family of stock, bond, and money funds.

PRICING SHARES AND RECEIVING SALE PROCEEDS

How and When Shares Are Priced

The share price (also called “net asset value” or NAV per share) for all funds is calculated at the close of the New York Stock Exchange, normally 4 p.m. ET, each day that the exchange is open for business. To calculate the NAV, the fund’s assets are valued and totaled, liabilities are subtracted, and the balance, called net assets, is divided by the number of shares outstanding. Market values are used to price stocks and bonds. Market values represent the prices at which securities actually trade or evaluations based on the judgment of the fund’s pricing services. If a market value for a security is not available, the fund will make a good faith effort to assign a fair value to the security by taking into account factors that have been approved by the fund’s Board of Directors/Trustees. This value may differ from the value the fund receives upon sale of the securities. Amortized cost is used to price securities held by money funds and certain other debt securities held by a fund. Investments in mutual funds are valued at the closing NAV per share of the mutual fund on the day of valuation.

Non-U.S. equity securities are valued on the basis of their most recent closing market prices at 4 p.m. ET except under the circumstances described below. Most foreign markets close before 4 p.m. ET. For securities primarily traded in the Far East, for example, the most recent closing prices may be as much as 15 hours old at 4 p.m. ET. If a fund determines that developments between the close of a foreign market and 4 p.m. ET will, in its judgment, materially affect the value of some or all of the fund’s securities, the fund will adjust the previous closing prices to reflect what it believes to be the fair value of the securities as of 4 p.m. ET. In deciding whether to make these adjustments, the fund reviews a variety of factors, including developments in foreign markets, the performance of U.S. securities markets, and the performance of instruments trading in U.S. markets that represent foreign securities and baskets of foreign securities. The fund may also fair value securities in other situations, for example, when a particular foreign market is closed but the fund is open. The fund uses outside pricing services to provide it with closing market prices and information used for adjusting those prices. The fund cannot predict how often it will use closing prices and how often it will adjust those prices. As a means of evaluating its fair

value process, the fund routinely compares closing market prices, the next day's opening prices in the same markets, and adjusted prices. Other mutual funds may adjust the prices of their securities by different amounts.

- ▶ ***The various ways you can buy, sell, and exchange shares are explained at the end of this prospectus and on the New Account Form. These procedures may differ for institutional and employer-sponsored retirement accounts or if you hold your account through an intermediary.***

How Your Purchase, Sale, or Exchange Price Is Determined

If we receive your request in correct form by 4 p.m. ET, your transaction will be priced at that business day's NAV. If we receive it after 4 p.m. ET, it will be priced at the next business day's NAV.

The funds generally do not accept orders that request a particular day or price for a transaction or any other special conditions.

Fund shares may be purchased through various third-party intermediaries including banks, brokers, and investment advisers. Where authorized by a fund, orders will be priced at the NAV next computed after receipt by the intermediary. Consult your intermediary to determine when your orders will be priced. The intermediary may charge a fee for its services.

When authorized by the fund, certain financial institutions or retirement plans purchasing fund shares on behalf of customers or plan participants through Financial Institution Services or Retirement Plan Services may place a purchase order unaccompanied by payment. Payment for these shares must be received by the time designated by the fund (not to exceed the period established for settlement under applicable regulations). If payment is not received by this time, the order may be canceled. The financial institution or retirement plan is responsible for any costs or losses incurred by the fund or T. Rowe Price if payment is delayed or not received.

Note: The time at which transactions and shares are priced and the time until which orders are accepted may be changed in case of an emergency or if the New York Stock Exchange closes at a time other than 4 p.m. ET. There may be times when you are unable to contact us by telephone or access your account by computer due to extreme market activity, the unavailability of the T. Rowe Price Web site, or other circumstances. Should this occur, your order must still be placed and accepted prior to the time the New York Stock Exchange closes to be priced at that business day's NAV.

How You Can Receive the Proceeds From a Sale

- ▶ ***When filling out the New Account Form, you may wish to give yourself the widest range of options for receiving proceeds from a sale.***

If your request is received by 4 p.m. ET (on a business day) in correct form, proceeds are usually sent on the next business day. Proceeds can be sent to you by mail or to your bank account by Automated Clearing House (ACH) transfer or bank wire. ACH is an automated method of initiating payments from, and receiving payments in, your financial institution account. Proceeds sent by ACH transfer are usually credited the second business day after the sale. Proceeds sent by bank wire should be credited to your account the first business day after the sale.

Exception: Under certain circumstances and when deemed to be in a fund's best interest, your proceeds may not be sent for up to seven calendar days after we receive your redemption request.

- ▶ ***If for some reason we cannot accept your request to sell shares, we will contact you.***

Contingent Redemption Fee

Short-term trading can disrupt a fund's investment program and create additional costs for long-term shareholders. For these reasons, certain T. Rowe Price funds, listed in the following table, assess a fee on redemptions (including exchanges), which reduces the proceeds from such redemptions by the amounts indicated:

<i>T. Rowe Price Funds With Redemption Fees</i>		
<i>Fund</i>	<i>Redemption fee</i>	<i>Holding period</i>
Africa & Middle East	2%	90 days or less
Diversified Small-Cap Growth	1%	90 days or less
Emerging Europe & Mediterranean	2%	90 days or less
Emerging Markets Bond	2%	90 days or less
Emerging Markets Stock	2%	90 days or less
Equity Index 500	0.5%	90 days or less
European Stock	2%	90 days or less
Extended Equity Market Index	0.5%	90 days or less
Global Large-Cap Stock	2%	90 days or less
Global Real Estate	2%	90 days or less
Global Stock	2%	90 days or less
High Yield	1%	90 days or less
International Bond	2%	90 days or less

<i>T. Rowe Price Funds With Redemption Fees (continued)</i>		
<i>Fund</i>	<i>Redemption fee</i>	<i>Holding period</i>
International Discovery	2%	90 days or less
International Equity Index	2%	90 days or less
International Growth & Income	2%	90 days or less
International Stock	2%	90 days or less
Japan	2%	90 days or less
Latin America	2%	90 days or less
New Asia	2%	90 days or less
Overseas Stock	2%	90 days or less
Real Estate	1%	90 days or less
Small-Cap Value	1%	90 days or less
Spectrum International	2%	90 days or less
Tax-Efficient Multi-Cap Growth	1%	less than 365 days
Total Equity Market Index	0.5%	90 days or less
U.S. Bond Index	0.5%	90 days or less

Redemption fees are paid to a fund to deter short-term trading, offset costs, and protect the fund's long-term shareholders. Subject to the exceptions described on the following pages, all persons holding shares of a T. Rowe Price fund that imposes a redemption fee are subject to the fee, whether the person is holding shares directly with a T. Rowe Price fund, through a retirement plan for which T. Rowe Price serves as recordkeeper, or indirectly through an intermediary, such as a broker, bank, investment adviser, recordkeeper for retirement plan participants, or any other third party.

Computation of Holding Period

When an investor sells shares of a fund that assesses a redemption fee, T. Rowe Price will use the "first-in, first-out" (FIFO) method to determine the holding period for the shares sold. Under this method, the date of redemption or exchange will be compared with the earliest purchase date of shares held in the account. For a fund with a 365-day holding period, a redemption fee will be charged on shares sold **before** the end of the required holding period. For funds with a 90-day holding period, a redemption fee will be charged on shares sold **on or before** the end of the required holding period. For example, if you redeem your shares on or before the 90th day from the date of purchase, you will be assessed the redemption fee. If you purchase shares through an intermediary, consult your intermediary to determine how the holding period will be applied.

Transactions Not Subject to Redemption Fees

The T. Rowe Price funds will not assess a redemption fee with respect to certain transactions. As of the date of this prospectus, the following shares of T. Rowe Price funds will not be subject to redemption fees:

1. Shares redeemed via an automated, systematic withdrawal plan;
2. Shares redeemed through or used to establish certain rebalancing or asset allocation programs or fund-of-funds products, if approved in writing by T. Rowe Price;
3. Shares purchased by the reinvestment of dividends or capital gain distributions;*
4. Shares converted from one share class to another share class of the same fund;*
5. Shares redeemed by a fund (e.g., for failure to meet account minimums or to cover various fees, such as fiduciary fees);
6. Shares purchased by rollover and changes of account registration within the same fund;*
7. Shares redeemed to return an excess contribution in an IRA account;
8. Shares of T. Rowe Price funds purchased by certain other T. Rowe Price funds or accounts managed by T. Rowe Price (please note that other shareholders of the T. Rowe Price fund are still subject to the policy);
9. Shares transferred to T. Rowe Price or a third-party intermediary acting as a service provider when the age of the shares cannot be determined systematically;*
10. Shares redeemed in retirement plans or other products that restrict trading to no more frequently than once per quarter, if approved in writing by T. Rowe Price.

* Subsequent exchanges of these shares into funds that assess redemption fees will subject such shares to the fee.

Redemption Fees on Shares Held in Retirement Plans

If shares are held in a retirement plan, redemption fees will generally be assessed on shares redeemed by exchange only if they were originally purchased by exchange. However, redemption fees may apply to transactions other than exchanges depending on how shares of the plan are held at T. Rowe Price or how the fees are applied by your plan's recordkeeper. To determine which of your transactions are subject to redemption fees, you should contact T. Rowe Price or your plan recordkeeper.

Omnibus Accounts

If your shares are held through an intermediary in an omnibus account, T. Rowe Price relies on the intermediary to assess the redemption fee on underlying shareholder accounts. T. Rowe Price seeks to identify intermediaries establishing omnibus accounts and to enter into agreements requiring the intermediary to

assess the redemption fees. There are no assurances that T. Rowe Price will be successful in identifying all intermediaries or that the intermediaries will properly assess the fees. Intermediaries who are unable to implement redemption fees due to system limitations must either (1) implement short-term trading restrictions approved by T. Rowe Price until they have the system capabilities to assess the fees or (2) set forth an implementation plan acceptable to T. Rowe Price.

Certain intermediaries may not apply the exemptions previously listed to the redemption fee policy; all redemptions by persons trading through such intermediaries may be subject to the fee. Certain intermediaries may exempt transactions not listed from redemption fees, if approved by T. Rowe Price. Persons redeeming shares through an intermediary should check with their respective intermediary to determine which transactions are subject to the fees.

USEFUL INFORMATION ON DISTRIBUTIONS AND TAXES

- ▶ *To the extent possible, all net investment income and realized capital gains are distributed to shareholders.*

Dividends and Other Distributions

Dividend and capital gain distributions are reinvested in additional fund shares in your account unless you select another option on your New Account Form. Reinvesting distributions results in compounding, that is, receiving income dividends and capital gain distributions on a rising number of shares.

Distributions not reinvested are paid by check or transmitted to your bank account via ACH. If the U.S. Post Office cannot deliver your check, or if your check remains uncashed for six months, the fund reserves the right to reinvest your distribution check in your account at the NAV on the day of the reinvestment and to reinvest all subsequent distributions in shares of the fund. Interest will not accrue on amounts represented by uncashed distributions or redemption checks.

The following table provides details on dividend payments:

Table 5 Dividend Payment Schedule

<i>Fund</i>	<i>Dividends</i>
Money funds	<ul style="list-style-type: none"> • Purchases received by T. Rowe Price by noon ET via wire begin to earn dividends on that day. Other shares normally begin to earn dividends on the business day after payment is received by T. Rowe Price. • Declared daily and paid on the first business day of each month.

Table 5 Dividend Payment Schedule (continued)

<i>Fund</i>	<i>Dividends</i>
Bond funds	<ul style="list-style-type: none"> • Shares normally begin to earn dividends on the business day after payment is received by T. Rowe Price. • Declared daily and paid on the first business day of each month.
These stock funds only: <ul style="list-style-type: none"> • Balanced • Dividend Growth • Equity Income • Equity Index 500 • Global Real Estate • Growth & Income • Personal Strategy Balanced • Personal Strategy Income • Real Estate 	<ul style="list-style-type: none"> • Declared and paid quarterly, if any, in March, June, September, and December. • Must be a shareholder on the dividend record date.
Retirement and Spectrum Funds: <ul style="list-style-type: none"> • Retirement Income and Spectrum Income • All others 	<ul style="list-style-type: none"> • Shares normally begin to earn dividends on the business day after payment is received by T. Rowe Price. • Declared daily and paid on the first business day of each month. • Declared and paid annually, if any, generally in December. • Must be a shareholder on the dividend record date.
Other stock funds	<ul style="list-style-type: none"> • Declared and paid annually, if any, generally in December. • Must be a shareholder on the dividend record date.

Bond or money fund shares will earn dividends through the date of redemption. Shares redeemed on a Friday or prior to a holiday (other than wire redemptions for money funds received before noon ET) will continue to earn dividends until the next business day. Generally, if you redeem all of your bond or money fund shares at any time during the month, you will also receive all dividends earned through the date of redemption in the same check. When you redeem only a portion of your bond or money fund shares, all dividends accrued on those shares will be reinvested, or paid in cash, on the next dividend payment date.

If you purchase and sell your shares through an intermediary, consult your intermediary to determine when your shares begin and stop accruing dividends; the information previously described may vary.

Capital Gain Payments

If a fund has net capital gains for the year (after subtracting any capital losses), they are usually declared and paid in December to shareholders of record on a specified date that month. If a second distribution is necessary, it is paid the following year.

Capital gain payments are not expected from money funds, which are managed to maintain a constant share price.

- ▶ ***A capital gain or loss is the difference between the purchase and sale price of a security.***

Tax Information

- ▶ ***You will be sent information for your tax filing needs on a timely basis.***

If you invest in the fund through a tax-deferred account, such as an IRA, you will not be subject to tax on dividends and distributions from the fund or the sale of fund shares if those amounts remain in the tax-deferred account. You may receive a Form 1099-R or other IRS forms, as applicable, if any portion of the account is distributed to you.

If you invest in the fund through a taxable account, you will generally be subject to tax when:

- You sell fund shares, including an exchange from one fund to another.
- The fund makes a distribution to your account.

Additional information about the taxation of dividends for certain T. Rowe Price funds is listed below:

Tax-Free and Municipal Funds
<ul style="list-style-type: none"> • Regular monthly dividends (including those from the state-specific tax-free funds) are expected to be exempt from federal income taxes. • Exemption is not guaranteed, since the fund has the right under certain conditions to invest in nonexempt securities. • A fund may invest in Build America Bonds authorized by the American Recovery and Reinvestment Act of 2009, as well as other qualified tax credit bonds. Investments in these bonds will result in taxable interest income, although the federal income tax on such interest income may be fully or partially offset by the specified tax credits that are available to the bondholders. A fund may elect to pass through to the shareholders taxable interest income and any corresponding tax credits. Any available tax credits—which are also included in federal taxable income—can generally be used to offset federal regular income tax and alternative minimum tax, but those tax credits are generally not refundable. • Tax-exempt dividends paid to Social Security recipients may increase the portion of benefits that is subject to tax. • For state-specific funds, the monthly dividends you receive are expected to be exempt from state and local income tax of that particular state. For other funds, a small portion of your income dividend may be exempt from state and local income taxes. • If a fund invests in certain “private activity” bonds not exempt from alternative minimum tax (AMT), shareholders who are subject to the AMT must include income generated by those bonds in their AMT calculation. Private activity bonds that are issued in 2009 and 2010, and refunding bonds issued in 2009 and 2010 to refund private activity bonds that were issued from the beginning of 2004 to the end of 2008, are exempt from AMT. The portion of a fund’s income dividend that should be included in your AMT calculation, if any, will be reported to you in January on Form 1099-INT.

For individual shareholders, a portion of ordinary dividends representing “qualified dividend income” received by the fund may be subject to tax at the lower rate applicable to long-term capital gains, rather than ordinary income. You may report it as “qualified dividend income” in computing your taxes provided you have held the fund shares on which the dividend was paid for more than 60 days during the 121-day period beginning 60 days before the ex-dividend date. Ordinary dividends that do not qualify for this lower rate are generally taxable at the investor’s marginal income tax rate. This includes the portion of ordinary dividends derived from interest, short-term capital gains, distributions from nonqualified foreign corporations, and dividends received by the fund from stocks that were on loan. Little, if any, of the ordinary dividends paid by the Global Real Estate Fund, Real Estate Fund, or the bond and money funds is expected to qualify for this lower rate.

For corporate shareholders, a portion of ordinary dividends may be eligible for the 70% deduction for dividends received by corporations to the extent the fund's income consists of dividends paid by U.S. corporations. Little, if any, of the ordinary dividends paid by the international funds or the bond and money funds is expected to qualify for this deduction.

Taxes on Fund Redemptions

When you sell shares in any fund, you may realize a gain or loss. An exchange from one fund to another is also a sale for tax purposes.

In January, if applicable, you will be sent Form 1099-B indicating the date and amount of each sale you made in the fund during the prior year. This information will also be reported to the IRS. For most new accounts or those opened by exchange in 1984 or later, we will provide you with the gain or loss on the shares you sold during the year based on the average cost single category method. This information is not reported to the IRS, and you do not have to use it. You may calculate the cost basis using other methods acceptable to the IRS, such as specific identification.

To help you maintain accurate records, we will send you a confirmation promptly following each transaction you make (except for systematic purchases and redemptions) and a year-end statement detailing all of your transactions in each fund account during the year.

Taxes on Fund Distributions

In January, if applicable, you will be sent a Form 1099-DIV, Form 1099-INT, or other IRS forms, as required, indicating the tax status of any income dividends, dividends exempt from federal income taxes, and capital gain distributions made to you. This information will be reported to the IRS. Taxable distributions are generally taxable to you in the year in which they are paid. Your bond or money fund dividends for each calendar year will include dividends accrued up to the first business day of the next calendar year. You will be sent any additional information you need to determine your taxes on fund distributions, such as the portion of your dividends, if any, that may be exempt from state and local income taxes. Dividends from tax-free funds are generally expected to be tax-exempt.

The tax treatment of a capital gain distribution is determined by how long the fund held the portfolio securities, not how long you held the shares in the fund. Short-term (one year or less) capital gain distributions are taxable at the same rate as ordinary income, and gains on securities held more than one year are taxed at the lower rates applicable to long-term capital gains. If you realized a loss on the sale or exchange of fund shares that you held six months or less, your short-term capital loss must be reclassified as a long-term capital loss to the extent of any long-term capital gain distributions received during the period you held the shares. If you realized a loss on the sale or exchange of tax-free fund shares held

six months or less, your capital loss is reduced by the tax-exempt dividends received on those shares. For funds investing in foreign securities, distributions resulting from the sale of certain foreign currencies, currency contracts, and the foreign currency portion of gains on debt securities are taxed as ordinary income. Net foreign currency losses may cause monthly or quarterly dividends to be reclassified as a return of capital.

If the fund qualifies and elects to pass through nonrefundable foreign income taxes paid to foreign governments during the year, your portion of such taxes will be reported to you as taxable income. However, you may be able to claim an offsetting credit or deduction on your tax return for those amounts. There can be no assurance that a fund will meet the requirements to pass through foreign income taxes paid.

► ***Taxable distributions are subject to tax whether reinvested in additional shares or received in cash.***

If a fund invests in Build America Bonds, authorized by the American Recovery and Reinvestment Act of 2009, or other qualified tax credit bonds and elects to pass through the corresponding interest income and any available tax credits, you will need to report both the interest income and any such tax credits as taxable income. You may be able to claim the tax credits on your federal tax return as an offset to your income tax (including alternative minimum tax) liability, but the tax credits are generally not refundable. There is no assurance, however, that a fund will elect to pass through the income and credits.

The following table provides additional details on distributions for certain funds:

Table 6 Taxes on Fund Distributions

Tax-Free and Municipal Funds
<ul style="list-style-type: none"> • Gains realized on the sale of market discount bonds with maturities beyond one year may be treated as ordinary income and cannot be offset by other capital losses. • Payments received or gains realized on certain derivative transactions may result in taxable ordinary income or capital gain. • To the extent the fund makes such investments, the likelihood of a taxable distribution will be increased.
Inflation Protected Bond Fund
<ul style="list-style-type: none"> • Inflation adjustments on Treasury inflation-protected securities exceeding deflation adjustments for the year will be distributed to you as a short-term capital gain resulting in ordinary income. • In computing the distribution amount, the fund cannot reduce inflation adjustments by short- or long-term capital losses from the sales of securities. • Net deflation adjustments for a year may result in all or a portion of dividends paid earlier in the year being treated as a return of capital.

Table 6 Taxes on Fund Distributions (continued)

Retirement and Spectrum Funds
<ul style="list-style-type: none"> • Distributions by the underlying funds and changes in asset allocations may result in taxable distributions of ordinary income or capital gains.

Tax Consequences of Hedging

Entering into certain options, futures, swaps, and forward foreign exchange contracts and transactions may result in the application of the mark-to-market and straddle provisions of the Internal Revenue Code. These provisions could result in a fund being required to distribute gains on such transactions even though it did not close the contracts during the year or receive cash to pay such distributions. The fund may not be able to reduce its distributions for losses on such transactions to the extent of unrealized gains in offsetting positions.

Tax Effect of Buying Shares Before an Income Dividend or Capital Gain Distribution

If you buy shares shortly before or on the “record date”—the date that establishes you as the person to receive the upcoming distribution—you may receive a portion of the money you just invested in the form of a taxable distribution. Therefore, you may wish to find out a fund’s record date before investing. Of course, a fund’s share price may, at any time, reflect undistributed capital gains or income and unrealized appreciation, which may result in future taxable distributions. Such distributions can occur even in a year when the fund has a negative return.

TRANSACTION PROCEDURES AND SPECIAL REQUIREMENTS

- ▶ *Following these procedures helps assure timely and accurate transactions.*

Purchase Conditions**Nonpayment**

If you pay with a check or ACH transfer that does not clear or if your payment is not received in a timely manner, your purchase may be canceled. You will be responsible for any losses or expenses incurred by the fund or transfer agent, and the fund can redeem shares you own in this or another identically registered T. Rowe Price account as reimbursement. The fund and its agents have the right to reject or cancel any purchase, exchange, or redemption due to nonpayment.

U.S. Dollars

All purchases must be paid for in U.S. dollars; checks must be drawn on U.S. banks.

Sale (Redemption) Conditions

Holds on Immediate Redemptions: 10-day Hold

If you sell shares that you just purchased and paid for by check or ACH transfer, the fund will process your redemption but will generally delay sending you the proceeds for up to 10 calendar days to allow the check or transfer to clear. If, during the clearing period, we receive a check drawn against your newly purchased shares, it will be returned marked “uncollected.” (The 10-day hold does not apply to purchases paid for by bank wire or automatic purchases through your paycheck.)

Telephone and Online Account Transactions

You may access your account and conduct transactions using the telephone or a computer. The T. Rowe Price funds and their agents use reasonable procedures to verify the identity of the shareholder. If these procedures are followed, the funds and their agents are not liable for any losses that may occur from acting on unauthorized instructions. A confirmation is sent promptly after a transaction. Please review it carefully and contact T. Rowe Price immediately about any transaction you believe to be unauthorized. Telephone conversations are recorded.

Large Redemptions

Large redemptions can adversely affect a portfolio manager’s ability to implement a fund’s investment strategy by causing the premature sale of securities that would otherwise be held longer. Therefore, the fund reserves the right (without prior notice) to pay all or part of redemption proceeds with securities from the fund’s portfolio rather than in cash (“redemption in-kind”). If this occurs, the securities will be selected by the fund in its absolute discretion and the redeeming shareholder or account will be responsible for disposing of the securities and bearing any associated costs.

Excessive and Short-Term Trading

► *T. Rowe Price may bar excessive and short-term traders from purchasing shares.*

Excessive or short-term trading in fund shares may disrupt management of a fund and raise its costs. Short-term traders in funds investing in foreign securities may seek to take advantage of an anticipated difference between the price of the fund’s shares and price movements in overseas markets (see Pricing Shares and Receiving Sale Proceeds—How and When Shares Are Priced). While there is no assurance that T. Rowe Price can prevent all excessive and short-term trading, the Boards of Directors/Trustees of the T. Rowe Price funds have adopted the following policies to deter such activity. Persons trading directly with T. Rowe Price or indirectly through intermediaries in violation of these policies or persons believed to be short-term traders may be barred for a minimum of 90 calendar days or permanently from further purchases of T. Rowe Price funds. Purchase transactions placed by such persons are subject to rejection without notice.

- All persons purchasing shares held directly with a T. Rowe Price fund, or through a retirement plan for which T. Rowe Price serves as recordkeeper, who make more than one purchase followed by one sale or one sale followed by one purchase involving the same fund within any 90-day calendar period will violate the policy.
- All persons purchasing fund shares held through an intermediary, including a broker, bank, investment adviser, recordkeeper, insurance company, or other third party, and who hold the shares for less than 90 calendar days will violate the policy.

Omnibus Accounts

Intermediaries often establish omnibus accounts in the T. Rowe Price funds for their customers. In such situations, T. Rowe Price cannot always monitor trading activity by underlying shareholders. However, T. Rowe Price reviews trading activity at the omnibus account level and looks for activity that indicates potential excessive or short-term trading. If it detects suspicious trading activity, T. Rowe Price contacts the intermediary to determine whether the excessive trading policy has been violated and may request and receive personal identifying information and transaction histories for some or all underlying shareholders (including plan participants) to make this determination. If T. Rowe Price believes that its excessive trading policy has been violated, it will instruct the intermediary to take action with respect to the underlying shareholder in accordance with the policy.

Retirement Plans

If shares are held in a retirement plan, generally the fund's excessive trading policy only applies to shares purchased and redeemed by exchange. However, the policy may apply to transactions other than exchanges depending on how shares of the plan are held at T. Rowe Price or how the excessive trading policy is applied by your plan's recordkeeper. To determine which of your transactions are subject to the fund's excessive trading policy, you should contact T. Rowe Price or your plan recordkeeper.

Exceptions to Policy

The following types of transactions are generally exempt from this policy:

1) trades solely in money funds (exchanges between a money fund and a non-money fund are not exempt); 2) systematic purchases and redemptions (see Information About Your Services); and 3) checkwriting redemptions from bond and money funds.

Transactions in certain rebalancing programs and asset allocation programs, or fund-of-funds products, may be exempt from the excessive trading policy subject to prior written approval by designated persons at T. Rowe Price. In addition,

transactions by certain T. Rowe Price funds in other T. Rowe Price funds, as well as certain transactions by approved accounts managed by T. Rowe Price, may also be exempt.

T. Rowe Price may modify the 90-day policy set forth above (for example, in situations where a retirement plan or retirement plan recordkeeper has restrictions on trading that differ from a T. Rowe Price fund's policy). These modifications would be authorized only if the fund believes that the modified policy would provide protection to the fund that is reasonably equivalent to the fund's regular policy. If you are trading your fund shares through an intermediary, you should consult with the intermediary to determine the excessive trading policy that applies to your trades in the fund.

- ▶ ***There is no guarantee that T. Rowe Price will be able to detect or prevent excessive or short-term trading.***

Keeping Your Account Open

Due to the relatively high cost to a fund of maintaining small accounts, we ask you to maintain an account balance of at least \$1,000 (\$10,000 for Summit Funds). If your balance is below this amount for three months or longer, we have the right to redeem your account at the then-current NAV after giving you 60 days to increase your balance. This could result in a taxable gain.

Signature Guarantees

- ▶ ***A signature guarantee is designed to protect you and the T. Rowe Price funds from fraud by verifying your signature.***

You may need to have your signature guaranteed in certain situations, such as:

- Written requests: (1) to redeem over \$100,000; or (2) to wire redemption proceeds when prior bank account authorization is not on file.
- Remitting redemption proceeds to any person, address, or bank account not on record.
- Transferring redemption proceeds to a T. Rowe Price fund account with a different registration (name or ownership) from yours.
- Establishing certain services after the account is opened.

You can obtain a signature guarantee from most banks, savings institutions, broker-dealers, and other guarantors acceptable to T. Rowe Price. We cannot accept guarantees from notaries public or organizations that do not provide reimbursement in the case of fraud.

ACCOUNT MAINTENANCE AND SMALL ACCOUNT FEES

- **Small Account Fee (all funds except Index Funds)** Because of the disproportionately high costs of servicing accounts with low balances, an annual \$10 small account fee, paid to T. Rowe Price Services, the funds' transfer agent, will be deducted automatically from nonretirement accounts with balances falling below a minimum amount. The valuation of accounts and the deduction are expected to take place during the last five business days of September. The fee will be deducted from accounts with balances below \$2,000, except for UGMA/UTMA accounts, for which the minimum is \$500. The fee will be waived for any investor whose T. Rowe Price mutual fund accounts total \$25,000 or more. These minimum amounts may be lowered for a particular year. Accounts employing automatic investing (e.g., payroll deduction, automatic purchase from a bank account, etc.) are also exempt from the charge. The fee does not apply to IRAs and other retirement plan accounts that utilize a prototype plan sponsored by T. Rowe Price, but a separate custodial or administrative fee may apply to such accounts.
- **Account Maintenance Fee (Index Funds only)** An annual \$10 account maintenance fee is charged on a quarterly basis (\$2.50 per quarter) usually during the last week of a calendar quarter. On the day of the assessment, accounts with balances below \$10,000 will be charged the fee. Please note that the fee will be charged to accounts that fall below \$10,000 for any reason, including market fluctuations, redemptions, or exchanges. The fee will apply to IRA accounts. The fee does not apply to retirement plans directly registered with T. Rowe Price Services or accounts maintained by intermediaries through NSCC[®] Networking.

ORGANIZATION AND MANAGEMENT

How are the funds organized?

T. Rowe Price California Tax-Free Income Trust (the “trust”) was organized in 1986 as a Massachusetts business trust. Currently, the trust consists of two series, each representing a separate pool of assets with different objectives and investment policies. Each is an “open-end management investment company,” or mutual fund. Mutual funds pool money received from shareholders and invest it to try to achieve specified objectives.

- ▶ *Shareholders benefit from T. Rowe Price’s 72 years of investment management experience.*

What is meant by “shares”?

As with all mutual funds, investors purchase shares when they put money in a fund. These shares are part of a fund’s authorized capital stock, but share certificates are not issued.

Each share and fractional share entitles the shareholder to:

- Receive a proportional interest in income and capital gain distributions.
- Cast one vote per share on certain fund matters, including the election of fund directors/trustees, changes in fundamental policies, or approval of changes in the fund’s management contract.

Do T. Rowe Price funds have annual shareholder meetings?

The funds are not required to hold annual meetings and, to avoid unnecessary costs to fund shareholders, do not do so except when certain matters, such as a change in fundamental policies, must be decided. In addition, shareholders representing at least 10% of all eligible votes may call a special meeting for the purpose of voting on the removal of any fund director or trustee. If a meeting is held and you cannot attend, you can vote by proxy. Before the meeting, the fund will send or make available to you proxy materials that explain the issues to be decided and include instructions on voting by mail or telephone or on the Internet.

Who runs the funds?

General Oversight

Each fund is governed by a Board of Trustees that meets regularly to review fund investments, performance, expenses, and other business affairs. The Board elects the funds’ officers. At least 75% of Board members are independent of T. Rowe Price.

- **All decisions regarding the purchase and sale of fund investments are made by T. Rowe Price—specifically by each fund’s portfolio manager.**

Portfolio Management

T. Rowe Price has established an Investment Advisory Committee with respect to each fund. The committee chairman has day-to-day responsibility for managing the fund’s portfolio and works with the committee in developing and executing each fund’s investment program. The members of each advisory committee are listed below. The Statement of Additional Information provides additional information about the portfolio managers’ compensation, other accounts managed by the portfolio managers, and the portfolio managers’ ownership of securities in the funds.

Money Fund Joseph K. Lynagh, Chairman, M. Helena Condez, G. Richard Dent, Charles E. Emrich, Konstantine B. Mallas, and Chen Shao. Mr. Lynagh has been chairman of the committee since 2000. He joined T. Rowe Price in 1990 and his investment experience dates from 1993.

Bond Fund Konstantine B. Mallas, Chairman, Charles E. Emrich, Joseph K. Lynagh, Hugh D. McGuirk, Mary J. Miller, Linda A. Murphy, and Timothy G. Taylor. Mr. Mallas has been chairman of the committee since 2003. He joined T. Rowe Price in 1986 and his investment experience dates from 1990.

The Management Fee

This fee has two parts—an “individual fund fee,” which reflects a fund’s particular characteristics, and a “group fee.” The group fee, which is designed to reflect the benefits of the shared resources of the T. Rowe Price investment management complex, is calculated daily based on the combined net assets of all T. Rowe Price funds (except the Spectrum Funds, Retirement Funds, TRP Reserve Investment Funds, and any index or private label mutual funds). The group fee schedule (in the following table) is graduated, declining as the asset total rises, so shareholders benefit from the overall growth in mutual fund assets.

Group Fee Schedule

0.334%*	First \$50 billion
0.305%	Next \$30 billion
0.300%	Next \$40 billion
0.295%	Next \$40 billion
0.290%	Next \$60 billion
0.285%	Thereafter

* Represents a blended group fee rate containing various breakpoints.

Each fund's group fee is determined by applying the group fee rate to the fund's average daily net assets. On February 28, 2009, the annual group fee rate was 0.31%. The individual fund fee for each fund, also applied to the fund's average daily net assets, is 0.10%.

To the extent necessary to maintain a net yield of 0.00% for the Money Fund on any day that a dividend is declared, T. Rowe Price may voluntarily waive all or a portion of the management fee it is entitled to receive from the fund for that day. This voluntary waiver is in addition to the contractual expense ratio limitation in effect for the fund. T. Rowe Price may amend or terminate this voluntary waiver of its management fee at any time without prior notice.

A discussion about the factors considered by the Board and its conclusions in approving each fund's investment management contract with T. Rowe Price appears in each fund's semiannual report to shareholders for the period ended August 31.

Fund Operations and Shareholder Services

T. Rowe Price Associates provides accounting services to the T. Rowe Price funds. T. Rowe Price Services, Inc., acts as the transfer and dividend disbursing agent and provides shareholder and administrative services to the funds. These companies receive compensation from the funds for their services. The funds may also pay third-party intermediaries for performing shareholder and administrative services for underlying shareholders in omnibus accounts. All such fees are included in the fees and expenses table under "Other expenses" and in the funds' financial statements.

UNDERSTANDING PERFORMANCE INFORMATION

This section should help you understand the terms used to describe fund performance. You will come across them in shareholder reports you receive from us, in our educational and informational materials, in T. Rowe Price advertisements, and in the media.

Total Return

This tells you how much an investment has changed in value over a given period. It reflects any net increase or decrease in the share price and assumes that all dividends and capital gains (if any) paid during the period were reinvested in additional shares. Therefore, total return numbers include the effect of compounding.

Advertisements may include cumulative or average annual total return figures, which may be compared with various indices, other performance measures, or other mutual funds.

Cumulative Total Return

This is the actual return of an investment for a specified period. A cumulative return does not indicate how much the value of the investment may have fluctuated *during* the period. For example, an investment could have a 10-year positive cumulative return, despite experiencing some years of negative returns during that time.

Average Annual Total Return

This is always hypothetical and should not be confused with actual year-by-year results. It smoothes out variations in annual performance to tell you what *constant* year-by-year return would have produced the investment's actual cumulative return. This gives you an idea of an investment's annual contribution to your portfolio, provided you held it for the entire period.

Yield

The current or "dividend" yield on a fund or any investment tells you the relationship between the investment's current level of annual income and its price on a particular day. The dividend yield reflects the actual income paid to shareholders for a given period, annualized and divided by the price at the end of the period. For example, a fund providing \$5 of annual income per share and a price of \$50 has a current yield of 10%. Yields can be calculated for any time period.

For bond funds, the advertised or SEC yield is found by determining the net income per share (as defined by the Securities and Exchange Commission) earned by a fund during a 30-day base period and dividing this amount by the share price on the last day of the base period. The SEC yield, also called the standardized yield, may differ from the dividend yield.

Money funds may advertise a current yield, reflecting the latest seven-day income annualized, and an "effective" yield, which assumes the income has been reinvested in the fund.

INVESTMENT POLICIES AND PRACTICES

This section takes a detailed look at some of the types of fund securities and the various kinds of investment practices that may be used in day-to-day portfolio management. Fund investments are subject to further restrictions and risks described in the Statement of Additional Information.

Shareholder approval is required to substantively change fund objectives. Shareholder approval is also required to change certain investment restrictions noted in the following section as "fundamental policies." Portfolio managers also follow certain "operating policies" that can be changed without shareholder

approval. Fund investment restrictions and policies apply at the time of purchase. A later change in circumstances will not require the sale of an investment if it was proper at the time it was made. (This exception does not apply to the funds' borrowing policy.)

Fund holdings of certain kinds of investments cannot exceed maximum percentages of total assets, which are set forth in this prospectus. For instance, fund investments in certain derivatives are limited to 10% of total assets. While these restrictions provide a useful level of detail about fund investments, investors should not view them as an accurate gauge of the potential risk of such investments. For example, in a given period, a 5% investment in derivatives could have significantly more of an impact on a fund's share price than its weighting in the portfolio. The net effect of a particular investment depends on its volatility and the size of its overall return in relation to the performance of all other fund investments.

Changes in fund holdings, fund performance, and the contribution of various investments are discussed in the shareholder reports sent to you.

- ▶ ***Fund managers have considerable discretion in choosing investment strategies and selecting securities they believe will help achieve fund objectives.***

Types of Portfolio Securities

In seeking to meet its investment objective, fund investments may be made in any type of municipal security or instrument (including, for the bond fund, certain potentially high-risk derivatives described in this section) whose investment characteristics are consistent with its investment program. The following pages describe various types of fund securities and investment management practices.

Diversification As a fundamental policy, each fund will not purchase a security if, as a result, with respect to 75% of its total assets, more than 5% of the fund's total assets would be invested in securities of a single issuer or more than 10% of the outstanding voting securities of the issuer would be held by each fund.

Operating policy (money fund) Except as permitted by Rule 2a-7 under the Investment Company Act of 1940, with respect to 75% of the fund's total assets, the money fund will not purchase a security if, as a result, more than 5% of its total assets would be invested in the securities of a single issuer. Under Rule 2a-7, the 5% limit, among other things, does not apply to purchases of U.S. government securities or securities subject to certain types of guarantees.

Municipal Securities

Fund assets are invested primarily in various tax-free municipal debt securities. A municipal bond is an interest-bearing security issued by a state or local government entity. There are two broad categories of municipal bonds. General obligation bonds are backed by the issuer's "full faith and credit," that is, its full taxing

and revenue raising power. Revenue bonds usually rely exclusively on a specific revenue source, such as charges for water and sewer service, to generate money for debt service. The issuer of a municipal security has a contractual obligation to pay interest at a stated rate on specific dates and to repay principal (the bond's face value) on a specified date or dates. An issuer may have the right to redeem or "call" a bond before maturity, which could require reinvestment of the proceeds at lower rates.

A municipal bond's annual interest income, set by its coupon rate, is usually fixed for the life of the bond. Its current yield (income as a percent of current price) will fluctuate to reflect changes in interest rate levels. For example, a municipal bond's price usually rises when interest rates fall and vice versa, so its yield stays consistent with current market conditions.

Certain municipal securities have interest rates that are adjusted periodically. These interest rate adjustments tend to minimize fluctuations in a bond's price. The maturity of those securities may be shortened under certain specified conditions. Some municipal securities have long-term maturities but are structured with interest rates that reset periodically (typically every 7, 28, or 35 days) through an auction process. If the auction process fails, the security will revert to its long-term maturity, resulting in a higher interest rate, less liquidity, greater volatility and a higher degree of credit risk.

Municipal money market securities have maturities of 13 months or less and may be interest-bearing or discounted to reflect the rate of interest paid. In the case of interest-bearing securities, the issuer pays coupon interest and repays the face value at stated rates and times. In the case of a discount money market security, no coupon interest is paid but the security's price is discounted so that the interest is realized when the security matures at face value.

- ▶ ***In purchasing municipals, reliance is placed on the opinion of the issuer's bond counsel regarding the tax-exempt status of the investment.***

Private Activity Bonds and Taxable Securities

While income from most municipals is exempt from federal income taxes, the income from certain types of private activity bonds (a type of revenue bond) is included in the alternative minimum tax (AMT) calculation. Only persons subject to the AMT pay this tax. Private activity bonds may be issued for purposes such as housing or airports or to benefit a private company. For further information, please see Useful Information on Distributions and Taxes—Tax Information.

Fundamental and operating policies As a matter of fundamental policy, under normal market conditions, a fund will not purchase a security if, as a result, less than 80% of its income would be exempt from federal and California state income taxes. The funds also have a fundamental policy that up to 20% of fund

income could be derived from securities subject to the alternative minimum tax. However, the money fund has an operating policy that fund investments will not be made in AMT securities.

Industrial development bonds are a special type of private activity bond permitted under IRS guidelines and are typically backed by a corporate obligor to finance projects benefiting the public.

Operating policy Fund investments in industrial development bonds related to the same industry (such as solid waste, nuclear utility, or airlines) are limited to 25% of total assets. Bonds which are refunded with escrowed U.S. government securities or subject to certain types of guarantees are not subject to the 25% limitation.

Operating policy During periods of abnormal market conditions, for temporary defensive purposes, there is no limit on fund investments in high-quality, short-term securities whose income is subject to federal and California state income taxes.

In addition to general obligation and revenue bonds, fund investments may include, but are not limited to, the following types of securities:

Municipal Lease Obligations

A lease is not a full faith and credit obligation of the issuer and is usually backed only by the borrowing government's unsecured pledge to make annual appropriations for lease payments. There have been challenges to the legality of lease financing in numerous states and, from time to time, certain municipalities have considered not appropriating money for lease payments. In deciding whether to purchase a lease obligation, an assessment is made of the financial condition of the borrower, the merits of the project, the level of public support for the project, and the legislative history of lease financing in the state. These securities may be less readily marketable than other municipals. Fund purchases of unrated lease obligations may also be made.

Securities With "Puts"

Some longer-term municipals give the investor the right to "put," or sell, the security at par (face value) within a specified number of days following the investor's request. This feature enhances a security's liquidity by shortening its effective maturity and may enable it to trade at a price equal to or very close to par. The money fund typically purchases a significant number of these securities; however, they may also be held by a bond fund. Termination of a put feature prior to exercise could result in the forced holding of the longer-term security, which could experience substantially more volatility.

Securities With Credit Enhancements

Fund securities can have the features described below. A fund may consider a credit enhancement when determining the credit quality, liquidity, or maturity of an investment.

- **Letters of Credit** Letters of credit are issued by a third party, usually a bank, to enhance liquidity and ensure repayment of principal and any accrued interest if the underlying municipal security should default.
- **Municipal Bond Insurance** This insurance, which is usually purchased by the bond issuer from a private, nongovernmental insurance company, provides an unconditional and irrevocable guarantee that the insured bond's principal and interest will be paid when due. Insurance does not guarantee the price of the bond or the share price of any fund. The credit rating assigned to an insured bond may reflect either the credit rating of the underlying issuer, based on its ability to make interest payments and repay principal in a timely manner, or the credit rating of the insurer, based on its claims-paying ability. In either case, T. Rowe Price bases its determination on whether to purchase an insured municipal bond primarily on the creditworthiness of the underlying issuer rather than the credit rating assigned to the insurer.

The obligation of a municipal bond insurance company to pay a claim extends over the life of each insured bond. Although defaults on insured municipal bonds have been fairly low to date and municipal bond insurers have generally been meeting their claims, there is no assurance this will continue. The number of municipal bond insurers is relatively small and certain of these insurers' ratings have recently been downgraded. As a result, it is possible that default rates on insured bonds and additional insurer downgrades could increase substantially, which could further strain an insurer's loss reserves and adversely affect its ability to pay claims to bondholders. Despite the quality of the underlying issuer, a downgrade of an insurer's rating could adversely affect the values of any bonds it insures because the perceived risk of owning the bonds has increased. In the long-term, T. Rowe Price expects that insured bonds are likely to comprise an increasingly smaller segment of the municipal bond market. Further, the inability of municipal bond insurers to maintain high credit ratings may restrict the supply of high-quality, short-term securities available for municipal money market funds and other municipal bond funds.

- **Standby Purchase Agreements** A Standby Purchase Agreement (SPA) is a liquidity facility provided to pay the purchase price of bonds that cannot be remarketed. The obligation of the liquidity provider (usually a bank) is only to advance funds to purchase tendered bonds that cannot be remarketed and does not cover principal or interest under any other circumstances. The liquidity provider's obligations under the SPA are usually subject to numerous conditions, including the continued creditworthiness of the underlying borrower.

Synthetic or Derivative Securities

- **Derivatives** A derivative is a financial instrument whose value is derived from an underlying security such as a stock or bond or from a market benchmark, such as an interest rate index. Many types of investments representing a wide range of risks and potential rewards are derivatives, including conventional instruments such as callable bonds, futures, and options, as well as more exotic investments such as swaps and structured notes. The use of derivatives can involve leverage. Leverage has the effect of magnifying returns, positively or negatively. The effect on returns will depend on the extent to which an investment is leveraged. For example, an investment of \$1, leveraged at 2 to 1, would have the effect of an investment of \$2. Leverage ratios can be higher or lower with a corresponding effect on returns. Derivatives will be used only if the expected risks and rewards are consistent with fund objectives, policies, and overall risk profile as described in this prospectus. The bond fund uses derivatives as a hedge against decline in principal value; to increase yield; to invest in eligible asset classes with greater efficiency and at a lower cost than is possible through direct investment; or to adjust portfolio duration or credit risk exposure.

While individual fund investments may involve leverage, the bond fund will not invest in any high-risk, highly leveraged derivative instrument that at the time of entering into the derivative transaction it is expected to cause the price volatility of the portfolio to be meaningfully different from that of a long-term (over 10-year maturity) investment-grade bond.

Derivatives and synthetics that may be used include the following as well as others that combine the risk characteristics and features of futures, options, swaps, and residual interest securities:

- **Interest Rate Futures (bond fund)** Futures, a type of potentially high-risk derivative, are often used to manage or hedge risk because they enable the investor to buy or sell an asset in the future at an agreed-upon price. Futures (and options on futures) may be bought or sold for any number of reasons, including: to hedge against a potentially unfavorable change in interest rates; to adjust a fund's exposure to the municipal bond market; in an effort to protect portfolio value or enhance income; to serve as a cash management tool; and to adjust portfolio duration.

Futures contracts and options may not always be successful hedges; their prices can be highly volatile; using them could lower fund total return; and the potential loss from the use of futures can exceed a fund's initial investment in such contracts.

Operating policy Initial margin deposits on futures and premiums on options used for non-hedging purposes will not equal more than 5% of fund net asset value.

- **Residual Interest Securities (bond fund)** These are a type of potentially high-risk derivative. The income stream provided by an underlying municipal bond is divided to create two securities (typically issued by a special purpose trust): one short-term tax-exempt security (sometimes referred to as a “tender option bond”) and one long-term tax-exempt security (sometimes referred to as a “residual certificate” or “inverse floater”) that pays interest at rates that move in the opposite direction of the yield on the short-term security. The interest rate on the short-term component is reset periodically, typically every seven days, through remarketing or another rate-setting process. After income is paid on the short-term security at current rates, the residual income goes to the long-term security. As short-term interest rates rise, the long-term security produces less income (and, in extreme cases, may pay no income) or, as short-term interest rates fall, the long-term security produces more income.

The longer-term securities can be very volatile and may be less liquid than other municipals of comparable maturity and credit quality. Residual interest securities involve varying degrees of leverage. A residual interest security that entails a higher degree of leverage will be subject to greater risk and more volatility with respect to its price and income. Under certain conditions, a fund that has purchased a residual interest security may be required to provide additional collateral for the short-term securities if the value of the underlying municipal bond decreases. During times of extreme market volatility, illiquidity or uncertainty, a fund could be required to sell other portfolio holdings at a disadvantageous price to raise cash to meet obligations in connection with a residual interest security. The IRS has not issued a definitive ruling on the tax-exempt nature of these securities. However, the fund will only invest in securities with a structure that nationally recognized bond counsel has concluded allows for the pass through of tax-exempt interest to investors.

Operating policy Fund investments in residual interest securities are limited to 10% of total assets.

- **Floating Rate Certificates** This term covers the short-term component discussed under Residual Interest Securities or other short-term variable rate securities created using underlying tax-exempt fixed-rate bonds. These securities have been developed in the secondary market to meet the demand for short-term, tax-exempt securities. The IRS has not issued a definitive ruling on the tax-exempt nature of these securities. However, the funds will only invest in securities with a structure that nationally recognized bond counsel has concluded allows for the pass through of tax-exempt interest to investors.

Operating policy There is no limit on fund investments in these securities.

- **Swaps (bond fund)** Fund investments may be made in interest rate, index, total return, credit default, and other types of swap agreements, as well as options on swaps (swaptions). All of these agreements are considered derivatives and, in certain cases, high-risk derivatives. Interest rate, index, and total return swaps are two-party contracts under which a fund and a counterparty, such as a broker or dealer, agree to exchange the returns (or differentials in rates of return) earned or realized on particular predetermined investments or indices. Credit default swaps are agreements where one party (the protection buyer) will make periodic payments to another party (the protection seller) in exchange for protection against specified credit events, such as defaults and bankruptcies related to an issuer or underlying credit instrument. Swaps and swaptions can be used for a variety of purposes, including: to manage fund exposure to changes in interest rates and credit quality; as an efficient means of adjusting a fund's overall exposure to certain markets; in an effort to enhance income or total return or protect the value of portfolio securities; to serve as a cash management tool; and to adjust portfolio duration or credit risk exposure.

There are risks in the use of swaps and swaptions. Swaps could result in losses if interest rates or credit quality changes are not correctly anticipated by the fund. Total return swaps could result in losses if the reference index, security, or investments do not perform as anticipated. Credit default swaps can increase fund exposure to credit risk and could result in losses if evaluation of the creditworthiness of the counterparty, or of the company or government on which the credit default swap is based, is incorrect. The use of swaps and swaptions may not always be successful. Using them could lower fund total return, their prices can be highly volatile, and the potential loss from the use of swaps can exceed a fund's initial investment in such instruments. Also, the other party to a swap agreement could default on its obligations or refuse to cash out a fund's investment at a reasonable price, which could turn an expected gain into a loss.

Operating policies A swap agreement with any single counterparty will not be entered into if the net amount owed or to be received under existing contracts with that party would exceed 5% of total assets, or if the net amount owed or to be received by the fund under all outstanding swap agreements will exceed 10% of total assets. Swaptions: The total market value of securities covering call or put options may not exceed 25% of total assets. No more than 5% of total assets will be committed to premiums when purchasing call or put options.

Illiquid Securities

Some fund holdings may be considered illiquid because they are subject to legal or contractual restrictions on resale or because they cannot be sold in the ordinary course of business at approximately the prices at which they are valued. The determination of liquidity involves a variety of factors. Illiquid securities may include private placements that are sold directly to a small number of investors,

usually institutions. Unlike public offerings, such securities are not registered with the Securities and Exchange Commission (SEC). Although certain of these securities may be readily sold, for example under Rule 144A of the Securities Act of 1933, others may have resale restrictions and be illiquid. The sale of illiquid securities may involve substantial delays and additional costs, and the funds may only be able to sell such securities at prices substantially less than what the funds believe they are worth.

Operating policy Fund investments in illiquid securities, including unmarketable private placements, are limited to 15% (10% for the money fund) of net assets.

Types of Investment Management Practices

Reserve Position (bond fund)

A certain portion of fund assets will be held in short-term, tax-exempt money market securities maturing in one year or less. Fund reserve positions can consist of shares of one or both of the T. Rowe Price internal money funds as well as short-term, investment-grade securities, including tax-exempt commercial paper, municipal notes, and short-term maturity bonds. Some of these securities may have adjustable, variable, or floating rates. For temporary, defensive purposes, there is no limit on a fund's holdings in reserves (which may not be tax-exempt). If a fund has significant holdings in reserves, it could compromise the fund's ability to achieve its objectives. The reserve position provides flexibility in meeting redemptions, paying expenses, and in the timing of new investments; can help in structuring a fund's weighted average maturity; and can serve as a short-term defense during periods of unusual market volatility.

When-Issued Securities (all funds) and Forwards (bond fund)

New issues of municipals are often sold on a "when-issued" basis, that is, delivery and payment usually take place 15 to 45 days after the buyer has agreed to the purchase. Some bonds, called "forwards," have longer-than-standard settlement dates, typically six to 24 months. Interest is not paid on when-issued and forward securities until settlement, and the value of the securities may fluctuate between purchase and settlement. Municipal "forwards" typically carry a substantial yield premium to compensate the buyer for their greater interest rate, credit, and liquidity risks.

Borrowing Money and Transferring Assets

A fund may borrow from banks and other T. Rowe Price funds for temporary emergency purposes to facilitate redemption requests, or for other purposes consistent with fund policies as set forth in this prospectus. Such borrowings may be collateralized with fund assets, subject to restrictions.

Fundamental policy Borrowings may not exceed 33¹/₃% of total assets.

Operating policy A fund will not transfer portfolio securities as collateral except as necessary in connection with permissible borrowings or investments, and then such transfers may not exceed 33¹/₃% of total assets. A fund will not purchase additional securities when borrowings exceed 5% of total assets.

Portfolio Turnover (bond fund)

Turnover is an indication of frequency of trading. The fund will not generally trade in securities for short-term profits, but, when circumstances warrant, securities may be purchased and sold without regard to the length of time held. Each time a fund purchases or sells a security, it incurs a cost. This cost is reflected in the fund's net asset value but not in its operating expenses. The higher the turnover rate, the higher the transaction costs and the greater the impact on the fund's total return. Higher turnover can also increase the possibility of taxable capital gain distributions. The bond fund's portfolio turnover rates are shown in the Financial Highlights table.

Sector Concentration

It is possible that 25% or more of fund assets could be invested in municipal securities that would tend to respond similarly to particular economic or political developments. An example would be securities of issuers whose revenues are paid from similar types of projects, such as health care bonds.

Credit-Quality Considerations

The credit quality of many bond issues is evaluated by rating agencies such as Moody's and Standard & Poor's based on the ability of the bond issuer to meet all required interest and principal payments. If a bond is insured, it will usually be rated on the financial strength of the issuer or insurer, whichever is higher. The highest ratings are assigned to those bonds perceived to present the lowest credit risk. T. Rowe Price research analysts also evaluate all fund holdings, including those rated by outside agencies and those that are insured. Other things being equal, lower-rated bonds have higher yields due to greater risk. High-yield bonds, also called "junk" bonds, are those rated below BBB.

Bond ratings are not guarantees. They are estimates of financial strength. Ratings can change at any time due to real or perceived changes in the credit or financial fundamentals of an issuer or insurer.

Table 7 shows the rating scale used by the major rating agencies. T. Rowe Price considers publicly available ratings but emphasizes its own credit analysis when selecting investments. T. Rowe Price may classify a bond as investment grade for purposes of a fund's investment policies and restrictions even if the rating agencies rate the bond as below investment grade based on the credit rating of the bond's insurer rather than the creditworthiness of the underlying issuer.

Table 7 Ratings of Municipal Debt Securities

	<i>Moody's Investors Service, Inc.</i>	<i>Standard & Poor's Corporation</i>	<i>Fitch Ratings</i>	<i>Definition</i>		
Long Term	Aaa	AAA	AAA	Highest quality		
	Aa	AA	AA	High quality		
	A	A	A	Upper-medium grade		
	Baa	BBB	BBB	Medium grade		
	<i>Moody's</i>		<i>S&P</i>		<i>Fitch Ratings</i>	
Short Term	MIG1/ VMIG1	Best quality	SP-1+ SP-1	Very strong quality Strong grade	F-1+ F-1	Exceptionally strong quality Very strong quality
	MIG2/ VMIG2	High quality	SP-2	Satisfactory grade	F-2	Good credit quality
Commercial Paper	P-1	Superior quality	A-1+ A-1	Extremely strong quality Strong quality	F-1+ F-1	Exceptionally strong quality Very strong quality
	P-2	Strong quality	A-2	Satisfactory quality	F-2	Good credit quality

DISCLOSURE OF FUND PORTFOLIO INFORMATION

Each fund's portfolio holdings are disclosed on a regular basis in its semiannual and annual reports to shareholders, and on Form N-Q, which is filed with the SEC within 60 days of the funds' first and third fiscal quarter-end. In addition, each fund discloses its calendar quarter-end portfolio holdings on troweprice.com 15 calendar days after each quarter. Under certain conditions, up to 5% of each fund's holdings may be included in this portfolio list without being individually identified. Generally, securities would not be individually identified if they are being actively bought or sold and it is determined that the quarter-end disclosure of the holding could be harmful to the funds. A security will not be excluded for these purposes from a fund's quarter-end holdings disclosure for more than one year. Each fund also discloses its largest 10 holdings on troweprice.com on the seventh business day after each month-end. These holdings are listed in alphabetical order along with the aggregate percentage of each fund's total assets that they represent. The quarter-end portfolio will remain on the Web site for one year. Each monthly top 10 list will remain on the Web site for six months. A description of each fund's policy and procedures with respect to the disclosure of portfolio information is in the Statement of Additional Information.

FINANCIAL HIGHLIGHTS

Table 8, which provides information about each fund's financial history, is based on a single share outstanding throughout the periods shown. Each fund's section of the table is part of the fund's financial statements, which are included in its annual report and are incorporated by reference into the Statement of Additional Information (available upon request). The total returns in the table represent the rate that an investor would have earned or lost on an investment in each fund (assuming reinvestment of all dividends and distributions and no payment of account or [if applicable] redemption fees). The financial statements in the annual reports were audited by the funds' independent registered public accounting firm, PricewaterhouseCoopers LLP.

Table 8 Financial Highlights

Money Fund	Year ended February 28				
	2005^a	2006^a	2007^a	2008^{a,b}	2009^a
Net asset value, beginning of period	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000
Income From Investment Operations					
Net investment income	0.008 ^c	0.021 ^c	0.029 ^c	0.029 ^c	0.013 ^c
Net gains or losses on securities (both realized and unrealized)	—	—	—	—	—
Total from investment operations	0.008 ^c	0.021 ^c	0.029 ^c	0.029 ^c	0.013 ^c
Less Distributions					
Dividends (from net investment income)	(0.008)	(0.021)	(0.029)	(0.029)	(0.013)
Distributions (from capital gains)	—	—	—	—	—
Total distributions	(0.008)	(0.021)	(0.029)	(0.029)	(0.013)
Net asset value, end of period	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000	\$ 1.000
Total return	0.80%^c	2.07%^c	2.95%^c	2.97%^c	1.35%^c
Ratios/Supplemental Data					
Net assets, end of period (in thousands)	\$101,067	\$104,743	\$119,123	\$133,101	\$128,510
Ratio of expenses to average net assets	0.55% ^c	0.55% ^c	0.55% ^c	0.55% ^c	0.57% ^{c,d}
Ratio of net income to average net assets	0.80% ^c	2.06% ^c	2.92% ^c	2.90% ^c	1.35% ^c

^a Per share amounts calculated using average shares outstanding method.

^b Year ended February 29.

^c Excludes expenses in excess of a 0.55% contractual expense limitation in effect through June 30, 2009.

^d Includes participation fees (0.02% of net assets) related to the Treasury's Temporary Guarantee Program for Money Market Funds.

Table 8 Financial Highlights (continued)

<i>Bond Fund</i>	<i>Year ended February 28</i>				
	<i>2005^a</i>	<i>2006^a</i>	<i>2007^a</i>	<i>2008^{a,b}</i>	<i>2009^a</i>
Net asset value, beginning of period	\$ 11.29	\$ 11.09	\$ 11.03	\$ 11.08	\$ 10.38
Income From Investment Operations					
Net investment income	0.48	0.47	0.48	0.47	0.47
Net gains or losses on securities (both realized and unrealized)	(0.19)	(0.05)	0.05	(0.70)	(0.25)
Total from investment operations	0.29	0.42	0.53	(0.23)	0.22
Less Distributions					
Dividends (from net investment income)	(0.48)	(0.47)	(0.48)	(0.47)	(0.47)
Distributions (from capital gains)	(0.01)	(0.01)	—	—	—
Total distributions	(0.49)	(0.48)	(0.48)	(0.47)	(0.47)
Net asset value, end of period	\$ 11.09	\$ 11.03	\$ 11.08	\$ 10.38	\$ 10.13
Total return	2.66%	3.90%	4.92%	(2.13)%	2.15%
Ratios/Supplemental Data					
Net assets, end of period (in thousands)	\$266,033	\$296,108	\$309,894	\$308,520	\$309,754
Ratio of expenses to average net assets	0.53%	0.53%	0.51%	0.52%	0.52%
Ratio of net income to average net assets	4.33%	4.30%	4.37%	4.34%	4.54%
Portfolio turnover rate	36.3%	21.2%	27.5%	18.1%	22.5%

^a Per share amounts calculated using average shares outstanding method.

^b Year ended February 29.

ACCOUNT REQUIREMENTS AND TRANSACTION INFORMATION

If you are purchasing fund shares through a third-party intermediary, contact the intermediary for information regarding the intermediary's policies on purchasing, exchanging, and redeeming fund shares as well as initial and subsequent investment minimums.

**Tax Identification
Number**

We must have your correct Social Security or employer identification number on a signed New Account Form or W-9 Form. Otherwise, federal law requires the funds to withhold a percentage of your dividends, capital gain distributions, and redemptions and may subject you to an IRS fine. If this information is not received within 60 days after your account is established, your account may be redeemed at the fund's NAV on the redemption date.

Transaction Confirmations

We send immediate confirmations for most of your fund transactions, but some, such as systematic purchases, dividend reinvestments, and checkwriting redemptions for money funds, are reported on your account statement. Please review confirmations and statements as soon as you receive them and promptly report any discrepancies to Shareholder Services.

**Employer-Sponsored
Retirement Plans and
Institutional Accounts**

**T. Rowe Price
Trust Company**
1-800-492-7670

Transaction procedures in the following sections may not apply to employer-sponsored retirement plans and institutional accounts. For procedures regarding employer-sponsored retirement plans, please call T. Rowe Price Trust Company or consult your plan administrator. For institutional account procedures, please call your designated account manager or service representative.

We do not accept third-party checks, except for IRA rollover checks that are properly endorsed. In addition, T. Rowe Price does not accept purchases made by credit card check, cash, or traveler's checks.

OPENING A NEW ACCOUNT

\$2,500 minimum initial investment; \$1,000 for retirement plans or gifts or transfers to minors (UGMA/UTMA) accounts (\$25,000 minimum initial investment for Summit Funds only)

**Important Information
About Opening an Account**

Pursuant to federal law, all financial institutions must obtain, verify, and record information that identifies each person or entity that opens an account.

When you open an account, you will be asked for the name, residential street address, date of birth, and Social Security number or employer identification number for each account owner and person(s) opening an account on behalf of others, such as custodians, agents, trustees, or other authorized signers. Entities are also required to provide documents such as articles of incorporation, partnership agreements, trust documents, and other applicable records.

We will use this information to verify the identity of the person(s)/entity opening the account. We will not be able to open your account until we receive all of this information. If we are unable to verify your identity, we are authorized to take any action permitted by law. (See Rights Reserved by the Funds.)

Account Registration

If you own other T. Rowe Price funds, be sure to register any new account just like your existing accounts so you can exchange shares among them easily. (The name(s) of the account owner(s) and the account type must be identical.)

For joint accounts or other types of accounts owned or controlled by more than one party, either owner/party has complete authority to act on behalf of all and give instructions concerning the account without notice to the other party. T. Rowe Price may, in its sole discretion, require written authorization from all owners/parties to act on the account for certain transactions (for example, to transfer ownership).

By Mail Please make your check payable to T. Rowe Price Funds (otherwise it will be returned), and send your check, together with the New Account Form, to the appropriate address below:

via U.S. Postal Service

T. Rowe Price Account Services
P.O. Box 17300
Baltimore, MD 21297-1300

via private carriers/overnight services

T. Rowe Price Account Services
Mailcode 17300
4515 Painters Mill Road
Owings Mills, MD 21117-4903

Note: Please use the correct address to avoid a delay in opening your new account.

By Wire Call Investor Services for an account number and wire transfer instructions.

In order to obtain an account number, you must supply the name, date of birth, Social Security or employer identification number, and residential or business street address for each owner on the account.

Complete a New Account Form and mail it to one of the appropriate T. Rowe Price addresses listed under By Mail.

Note: Investment will be made, but services may not be established and IRS penalty withholding may occur until we receive a signed New Account Form.

Online You can open a new mutual fund account online. Go to troweprice.com/newaccount, where you can choose the type of account you wish to open.

To open an account electronically, you must be a U.S. citizen residing in the U.S. or a resident alien and not subject to IRS backup withholding. Additionally, you must provide consent to receive certain documents electronically.

You will have the option of providing your bank account information that will enable you to make electronic funds transfers (EFT) to and from your bank account. To set up this banking service online, additional steps will be taken to verify your identity.

By Exchange Call Shareholder Services or use your personal computer (see Automated Services under Information About Your Services). The new account will have the same registration as the account from which you are exchanging. Services for the new account may be carried over by telephone request if they are preauthorized on the existing account. For limitations on exchanging, please see Transaction Procedures and Special Requirements—Excessive and Short-Term Trading.

In Person Drop off your New Account Form at any location listed on the back cover and obtain a receipt.

PURCHASING ADDITIONAL SHARES

\$100 minimum additional purchase (\$1,000 for Summit Funds); \$50 minimum for retirement plans and gifts or transfers to minors (UGMA/UTMA) accounts; \$50 minimum for Automatic Asset Builder (\$100 for Summit Funds)

By ACH Transfer Use your personal computer or call Shareholder Services if you have established electronic transfers using the ACH system.

By Wire Call Shareholder Services or access troweprice.com for wire transfer instructions.

By Mail

1. Make your check payable to T. Rowe Price Funds (otherwise it may be returned).
2. Mail the check to us at the following address with either a fund reinvestment slip or a note indicating the fund you want to buy and your fund account number. Please use the correct address to avoid a delay in processing your transaction.
3. Remember to provide your account number and the fund name on the memo line of your check.

via U.S. Postal Service

T. Rowe Price Account Services
P.O. Box 17300
Baltimore, MD 21297-1300

(For mail via private carriers and overnight services, see previous section.)

By Automatic Asset Builder Fill out the Automatic Asset Builder section on the New Account or Shareholder Services Form.

EXCHANGING AND REDEEMING SHARES

Exchange Service You can move money from one account to an existing, identically registered account or open a new identically registered account. Remember, exchanges are purchases and sales for tax purposes. (Exchanges into a state tax-free fund are limited to investors living in states where the fund is registered.) For exchange policies, please see Transaction Procedures and Special Requirements—Excessive and Short-Term Trading.

Redemptions Redemption proceeds can be mailed to your account address, sent by ACH transfer to your bank, or wired to your bank (provided your bank information is already on file). For charges, see Electronic Transfers—By Wire under Information About Your Services. Please note that large purchase and redemption requests initiated through automated services, including the National Securities Clearing Corporation (NSCC), may be rejected and, in such instances, the transaction must be placed by contacting a service representative.

If you request to redeem a specific dollar amount, and the market value of your account is less than the amount of your request, we will redeem all shares from your account.

Some of the T. Rowe Price funds may impose a redemption fee. Check the fund's prospectus under Contingent Redemption Fee in Pricing Shares and Receiving Sale Proceeds. The fee is paid to the fund.

For redemptions by check or electronic transfer, please see Information About Your Services.

By Phone Call Shareholder Services

If you find our phones busy during unusually volatile markets, please consider placing your order by your personal computer (if you have previously authorized these services), mailgram, or express mail.

By Mail For each account involved, provide the account name and number, fund name, and exchange or redemption amount. For exchanges, be sure to specify any fund you are exchanging out of and the fund or funds you are exchanging into. T. Rowe Price may require a signature guarantee of all registered owners (see Transaction Procedures and Special Requirements—Signature Guarantees). Please use the appropriate address below to avoid a delay in processing your transaction:

**For nonretirement and IRA accounts:
via U.S. Postal Service**

T. Rowe Price Account Services
P.O. Box 17302
Baltimore, MD 21297-1302

via private carriers/overnight services

T. Rowe Price Account Services
Mailcode 17302
4515 Painters Mill Road
Owings Mills, MD 21117-4903

**For employer-sponsored retirement accounts:
via U.S. Postal Service**

T. Rowe Price Trust Company
P.O. Box 17479
Baltimore, MD 21297-1479

via private carriers/overnight services

T. Rowe Price Trust Company
Mailcode 17479
4515 Painters Mill Road
Owings Mills, MD 21117-4903

Requests for redemptions from employer-sponsored retirement accounts may be required to be in writing; please call T. Rowe Price Trust Company or your plan administrator for instructions. IRA distributions may be requested in writing or by telephone; please call

Shareholder Services to obtain an IRA Distribution Form or an IRA Shareholder Services Form to authorize the telephone redemption service.

Online Customers with Account Access can electronically exchange shares between identically registered T. Rowe Price accounts and electronically redeem shares from their mutual fund accounts.

RIGHTS RESERVED BY THE FUNDS

T. Rowe Price funds and their agents, in their sole discretion, reserve the following rights: (1) to waive or lower investment minimums; (2) to accept initial purchases by telephone or mailgram; (3) to refuse any purchase or exchange order; (4) to cancel or rescind any purchase or exchange order placed through an intermediary, no later than the business day after the order is received by the intermediary (including, but not limited to, orders deemed to result in excessive trading, market timing, or 5% ownership); (5) to cease offering fund shares at any time to all or certain groups of investors; (6) to freeze any account and suspend account services when notice has been received of a dispute regarding the ownership of the account, or there is reason to believe a fraudulent transaction may occur; (7) to otherwise modify the conditions of purchase and any services at any time; (8) to waive any wire, small account, maintenance, or fiduciary fees charged to a group of shareholders; (9) to act on instructions reasonably believed to be genuine; and (10) to involuntarily redeem your account at the net asset value calculated the day the account is redeemed, in cases of threatening conduct, suspected fraudulent or illegal activity, or if the fund or its agent is unable, through its procedures, to verify the identity of the person(s) or entity opening an account.

INFORMATION ABOUT YOUR SERVICES

Shareholder Services

1-800-225-5132

Many services are available to you as a shareholder; some you receive automatically, and others you must authorize or request on the New Account Form. By signing up for services on the New Account Form, you avoid having to complete a separate form at a later time and obtain a signature guarantee. This section discusses some of the services currently offered.

Investor Services

1-800-638-5660

Note: Corporate and other institutional accounts require documents showing the existence of the entity to open an account. Certain other fiduciary accounts (such as trusts or power of attorney arrangements) require documentation, which may include an original or certified copy of the trust agreement or power of attorney to open an account. For more information, call Investor Services.

Retirement Plans

We offer a wide range of plans for individuals, institutions, and large and small businesses: Traditional IRAs, Roth IRAs, SIMPLE IRAs, SEP-IRAs, Keoghs (profit sharing, money purchase pension), 401(k)s, and 403(b)(7)s. For information on IRAs or our no-load variable annuity, call Investor Services. For information on all other retirement plans, please call our Trust Company at 1-800-492-7670.

Investing for College Expenses

We can help you save for future college expenses on a tax-advantaged basis.

Education Savings Accounts (ESAs) (formerly known as Education IRAs)

Invest up to \$2,000 a year per beneficiary depending on your annual income; account earnings are federal income tax-free when used for qualified expenses.

529 Plans

T. Rowe Price manages three 529 plans that are available directly to investors: the T. Rowe Price College Savings Plan (a national plan sponsored by the Education Trust of Alaska), the Maryland College Investment Plan, and the University of Alaska College Savings Plan. Account earnings are federal income tax-free when used for qualified expenses. For more information on the T. Rowe Price College Savings Plan (national plan), call

1-800-369-3641; Maryland College Investment Plan, call 1-888-4-MD-GRAD; and University of Alaska College Savings Plan, call 1-866-277-1005.

Automated Services

Tele*AccessSM

Tele*AccessSM
1-800-638-2587
24 hours, 7 days

24-hour service via a toll-free number enables you to (1) access information on fund performance, prices, distributions, account balances, and your latest transaction; and (2) request checks, prospectuses, services forms, duplicate statements, and tax forms.

Online Account Access

Web Address
troweprice.com

You can sign up online to conduct account transactions through our Web site. If you subscribe to America Online[®], you can access our Web site via keyword "T. Rowe Price" and conduct transactions in your account.

Plan Account Line
1-800-401-3279

This 24-hour service is similar to Tele*AccessSM but is designed specifically to meet the needs of retirement plan investors.

**By Telephone and
In Person**

Buy, sell, or exchange shares by calling one of our service representatives or by visiting one of our investor center locations whose addresses are listed on the back cover.

Electronic Transfers

By ACH

With no charges to pay, you can move as little as \$100 or as much as \$250,000 between your bank account and fund account using the ACH system. Enter instructions via your personal computer or call Shareholder Services.

By Wire

Electronic transfers can be conducted via bank wire. There is a \$5 fee for wire redemptions under \$5,000, and your bank may charge for incoming or outgoing wire transfers regardless of size.

Checkwriting

(Not available for equity funds or the Emerging Markets Bond, High Yield, International Bond, or U.S. Bond Index Funds) You may write an unlimited number of free checks on any money fund and most bond funds, with a minimum of \$500 per check. Keep in mind, however, that a check results in a redemption; a check written on a bond fund will create a taxable event which you and we must report to the IRS.

Automatic Investing Automatic Asset Builder

You can instruct us to move \$50 (\$100 for Summit Funds) or more from your bank account, or you can instruct your employer to send all or a portion of your paycheck to the fund or funds you designate.

Automatic Exchange

You can set up systematic investments from one fund account into another, such as from a money fund into a stock fund.

T. ROWE PRICE BROKERAGE

To Open an Account
1-800-638-5660

Investments available through our brokerage service include stocks, options, bonds, and others at commission savings over full-service brokers.* We also provide a wide range of services, including:

**For Existing
Brokerage Customers**
1-800-225-7720**Automated Telephone and Computer Services**

You can enter stock and option orders, access quotes, and review account information around the clock by phone with Tele-Trader or via the Internet with Account Access-Brokerage.

Investor Information

A variety of informative reports, such as our Brokerage Insights series, as well as access to online research tools, can help you better evaluate economic trends and investment opportunities.

Dividend Reinvestment Service

If you elect to participate in this service, the cash dividends from the eligible securities held in your account will automatically be reinvested in additional shares of the same securities free of charge. Most securities listed on national securities exchanges or NASDAQ are eligible for this service.

*Services vary by firm.

T. Rowe Price Brokerage is a division of T. Rowe Price Investment Services, Inc., Member FINRA/SIPC.

INVESTMENT INFORMATION

To help you monitor your investments and make decisions that accurately reflect your financial goals, T. Rowe Price offers a wide variety of information in addition to account statements. Most of this information is also available on our Web site at troweprice.com.

A note on mailing procedures: If two or more members of a household own the same fund, we economize on fund expenses by sending only one fund report and prospectus. If you need additional copies or do not want your mailings to be “householded,” please call Shareholder Services at 1-800-225-5132 or write to us at P.O. Box 17630, Baltimore, MD 21297-1630.

Shareholder Reports

Fund managers’ annual and semiannual reviews of their strategies and performance.

The T. Rowe Price Report

A quarterly investment newsletter discussing markets and financial strategies and including the Performance Update, a review of all T. Rowe Price fund results.

Insights

Educational reports on investment strategies and financial markets.

Investment Guides

Asset Mix Worksheet, Diversifying Overseas: A T. Rowe Price Guide to International Investing, Managing Your Retirement Distribution, Retirement Readiness Guide, and Retirement Planning Kit.

T. ROWE PRICE PRIVACY POLICY

In the course of doing business with T. Rowe Price, you share personal and financial information with us. We treat this information as confidential and recognize the importance of protecting access to it.

You may provide information when communicating or transacting business with us in writing, electronically, or by phone. For instance, information may come from applications, requests for forms or literature, and your transactions and account positions with us. On occasion, such information may come from consumer reporting agencies and those providing services to us.

We do not sell information about current or former customers to any third parties, and we do not disclose it to third parties unless necessary to process a transaction, service an account, or as otherwise permitted by law. We may share information within the T. Rowe Price family of companies in the course of providing or offering products and services to best meet your investing needs. We may also share that information with companies that perform administrative or marketing services for T. Rowe Price, with a research firm we have hired, or with a business partner, such as a bank or insurance company with which we are developing or offering investment products. When we enter into such a relationship, our contracts restrict the companies' use of our customer information, prohibiting them from sharing or using it for any purposes other than those for which they were hired.

We maintain physical, electronic, and procedural safeguards to protect your personal information. Within T. Rowe Price, access to such information is limited to those who need it to perform their jobs, such as servicing your accounts, resolving problems, or informing you of new products or services. Finally, our Code of Ethics, which applies to all employees, restricts the use of customer information and requires that it be held in strict confidence.

This Privacy Policy applies to the following T. Rowe Price family of companies: T. Rowe Price Associates, Inc.; T. Rowe Price Advisory Services, Inc.; T. Rowe Price Investment Services, Inc.; T. Rowe Price Savings Bank; T. Rowe Price Trust Company; and the T. Rowe Price Funds.

To help you achieve your financial goals, T. Rowe Price offers a wide range of stock, bond, and money market investments, as well as convenient services and informative reports.

For mutual fund or T. Rowe Price Brokerage information

Investor Services

1-800-638-5660

For existing accounts

Shareholder Services

1-800-225-5132

For the hearing impaired

1-800-367-0763

For performance, prices, or account information

Tele*AccessSM

24 hours, 7 days

1-800-638-2587

Internet address

troweprice.com

Plan Account Line

For retirement plan investors: The appropriate 800 number appears on your retirement account statement.

Investor Centers

For directions, call
1-800-225-5132 or
visit our Web site

Baltimore Area**Downtown**

105 East Lombard
Street

Owings Mills

Three Financial Center
4515 Painters Mill Road

Boston Area

386 Washington Street
Wellesley

Chicago Area**Northbrook**

40 Skokie Boulevard
Suite 100

Oak Brook

1900 Spring Road
Suite 104

Colorado Springs

2260 Briargate Parkway

Florida Area**Boca Raton**

Wachovia Plaza
925 S. Federal Highway
Suite 175

Tampa

4211 W. Boy Scout
Boulevard
8th Floor

Los Angeles Area

10100 Santa Monica
Boulevard
Suite 100
Century City

New Jersey Area**Short Hills**

51 JFK Parkway
1st Floor West

Paramus

35 Plaza Office Center
East 81 Route 4 West

New York Area

1100 Franklin Avenue
Suite 101
Garden City

San Francisco Area

1990 N. California Boulevard
Suite 100
Walnut Creek

Washington, D.C. Area**Downtown**

900 17th Street, N.W.
Farragut Square

Tysons Corner

1600 Tysons Boulevard
Suite 150
McLean, Virginia

A Statement of Additional Information for the T. Rowe Price family of funds has been filed with the Securities and Exchange Commission and is incorporated by reference into this prospectus. Further information about fund investments, including a review of market conditions and the manager's recent strategies and their impact on performance, is available in the annual and semiannual shareholder reports. To obtain free copies of any of these documents, or for shareholder inquiries, call 1-800-638-5660. These documents and updated performance information are available through troweprice.com.

Fund information and Statements of Additional Information are also available from the Public Reference Room of the Securities and Exchange Commission. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-202-942-8090. Fund reports and other fund information are available on the EDGAR Database on the SEC's Internet site at <http://www.sec.gov>. Copies of this information may be obtained, after paying a duplicating fee, by electronic request at publicinfo@sec.gov, or by writing the Public Reference Room, Washington D.C. 20549-0102.



T. Rowe Price Associates, Inc.
100 East Pratt Street
Baltimore, MD 21202