# Augsburg Fortress
PUBLISHERS

December 31, 2009

Dear Augsburg Fortress Retirement Plan Participant:

It is with deep regret that we write to inform you that on December 18, 2009, the Board of Trustees of Augsburg Fortress accepted an administrative committee's recommendation to terminate the Retirement Plan II for Employees of Augsburg Fortress Publishers, Publishing House of the ELCA (the "plan") effective March 5, 2010, and to amend the plan prior to termination to provide for more equitable allocation of plan assets among plan participants. This was an extraordinarily difficult decision, reached only after thoroughly exploring other options.

If you are currently receiving retirement benefits from the plan, your monthly benefits will continue through the March 1, 2010 benefit payment. Upon termination of the plan as of March 5, 2010, most plan participants, including current retirees, will receive a lump sum benefit from the plan. The lump sum will be calculated according to the amended terms of the plan as of the date of plan termination. Because the plan is severely underfunded, there is not enough money to pay the full benefits that plan participants otherwise would have received had the plan been fully funded.

Absent plan termination, the money in the plan was projected to be totally distributed as plan benefits to retirees in approximately 5 years, leaving many participants in the plan without any retirement benefit from Augsburg Fortress.

We have decided to amend the plan terms prior to plan termination in order to ensure that the limited amount of money in the plan is spread more equally to participants and beneficiaries upon plan termination. A lump sum distribution upon plan termination under current plan terms provide that all the money in the plan would be used to fund benefits for approximately 175 plan participants who retired prior to March 5, 2007, and their beneficiaries. The plan is so underfunded that even these participants would only receive part of their benefits in a lump sum distribution. The other approximately 325 participants in the plan would receive nothing. Because Augsburg Fortress believes this would be inequitable, the Board of Trustees of Augsburg Fortress has authorized the committee administering the plan to draft a plan amendment that will take effect prior to plan termination and will provide most plan participants some portion of their plan benefits.

We expect the plan amendment to provide that any cost of living increases earned by plan participants on or after January 1, 1996, will be moved to the lowest payment priority category. This means that if part of your benefit resulted from a cost of living increase earned on or after January 1, 1996, your benefit would be reduced by the amount attributable to the cost of living increase and the cost of living amount would not be included in the calculation of the lump sum distribution. We also expect the plan amendment to provide that the limited cash of the plan will

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be allocated to participants based on years of service, and retiree status. In general, this would mean that those plan participants with greater years of service with Augsburg Fortress, and those currently retired, would receive a larger portion of their plan benefits. We expect to inform you in late January about the exact amount of your lump sum distribution in light of the anticipated plan amendment.

Attached are a series of questions and answers which address concerns you may have about the termination. Please review them carefully and if you have any additional questions or concerns, please address them, in writing, to Sandy Middendorf at Augsburg Fortress Publishers, 100 South Fifth Street, Suite 600, Minneapolis, MN 55402, as soon as possible.

These decisions and actions break our hearts and we apologize, but they are necessary. Know that you are in our hearts, our thoughts and, especially our prayers.

Sincerely,

Beth A Lewis

Beth A. Lewis, President & CEO

**Questions and Answers Regarding Termination of the Augsburg Fortress Retirement Plan**

1. Why is the plan being terminated?

A. The plan is severely underfunded, and the payment of benefits will use all of the money available to pay benefits in approximately five years if nothing is done. After thoroughly evaluating options for the plan, we determined that terminating it now will allow for a more equitable distribution of the money in the plan among the greatest number of participants and beneficiaries.

2. How serious is the funding deficiency?

A. As of December 31, 2009, the plan's retirement benefit obligations totaled approximately $24.2 million and its assets totaled $8.6 million

3. What other options were considered before deciding to terminate the plan?

A. We considered many other options for the plan, including three that stand out:

Choice number one was to do nothing. If we did nothing, by making the current monthly benefit payments, the plan would run out of money in approximately five years. Fewer than half of the 500 people in the plan would have received some plan benefits, but monthly benefits would stop when the plan ran out of money. If this were to happen, it is projected that over 250 plan participants would receive no benefits at all. This was not a viable option, since it was unfair to a large group of plan participants.

Choice number two was to try to find external funding to put more money into the plan. Augsburg Fortress is not in a position to cover the funding shortfall because of our own ongoing operational challenges resulting from fewer sales to shrinking ELCA congregations and increasing competition from the Internet and publishers outside of the Lutheran tradition. Over the past several months, Augsburg Fortress President and CEO Beth Lewis met with many people who lead organizations that we thought might have the financial means to provide a grant to help sustain the plan's benefit payments. Unfortunately, as you might imagine in this challenging economy, when many nonprofit organizations are seeking funding for worthy causes, this proved to be impossible.

Choice number three was for Augsburg Fortress to declare bankruptcy and sell off the assets of the company to fund the shortfall. Even this drastic measure would not entirely fund the plan's shortfall. Furthermore, it would be a tragedy for the proclamation of the Gospel and would put almost 200 employees out of work. Having worked for Augsburg Fortress yourselves, you are well aware that we are called to create high quality resources for teaching our faith and worshiping God. It is hard to imagine a church body of almost 4,500,000 members not having a publishing ministry to serve the needs of current and future generations.

Choice number four was the choice we made: amending the terms of the plan and then terminating the plan so that the limited amount of money in the plan is spread more equitably among plan participants.

This decision breaks our hearts. But, among four bad options, we truly believe that this is the best of them. Not good. Just the best of the hard choices facing us.

4. How did the plan become underfunded?

A. The plan has been underfunded for approximately nine years. Nonetheless, it appeared until recently to have enough funding to provide benefit payments to plan participants for many years. However, all of that changed as a result of the dramatic downturn in the financial markets in 2008 and early 2009. The continued payment of plan benefits during the downturn compromised the opportunity for the plan assets to regain sufficient ground to sustain the plan during the ensuing market recovery. Other factors that contributed to the underfunding include lower interest rates and adjustments to mortality tables.

5. What will my lump sum payment be?

A. Most plan participants will receive a lump sum distribution from the plan. However, approximately 77 plan participants whose entire plan benefit is attributable to cost of living increases paid on or after January 1, 1996 will not be entitled to a lump sum distribution or any other benefits from the plan. If you are one of these participants, you have received a letter that describes this in further detail.

For those participants who will receive a lump sum distribution, we will be providing information regarding the amount of your lump sum payment in late January 2010. The amount of each individual's lump sum distribution will be calculated under the benefit formula of the plan and will generally be based on final average earnings and length of service. We have not made any changes to the plan's benefit formula.

Once each participant's monthly retirement benefit is calculated under the terms of the plan, it will be converted to a lump sum distribution, based on an established interest rate. Because the plan lacks the money to pay full lump sum benefits to all plan participants, the plan will be amended to include the methodology used to allocate the cash in the plan. The Board of Trustees has not yet approved the exact allocation methodology, but they have approved an allocation based generally on equitable principles, such as length of service and retiree status. We expect that the Board will approve a final allocation methodology based on the above-mentioned principles in mid January, and we will let you know what your lump sum will be as soon as possible after that.

6. Why and how were the distribution priorities for the plan amended?

A. Under the plan's distribution priorities *before* amendment, most plan participants would receive nothing upon the termination of the plan. We recommended to the Board of Trustees certain amendments to the distribution priorities that will enable *a majority of* plan participants to receive a portion of their accrued benefit. We believe this provides a more fair and equitable outcome in these circumstances.

7. How can the plan take away my expected retirement benefit?

A. The plan document states that it will pay your benefit only to the extent there is enough cash to continue paying the benefits. Since there is not enough cash in the plan to pay all of the retirement benefits for all participants, the plan is only obligated to pay up to the total amount of its assets.

8. Is there any federally backed guarantee for my plan benefits?

A. No. As disclosed in the plan's documents, it is organized as a "church plan." As a result, plan participants are not covered by the provisions of the Employee Retirement Income Security Act (ERISA) and the plan's benefits are not guaranteed by the Pension Benefit Guaranty Corporation.

9. Who administered the plan for Augsburg Fortress?

A. The Administrative Committee for the plan, which consisted of the company's Chief Executive Officer, Chief Financial Officer and Vice President of Human Resources. The Administrative Committee received advice from the plan's advisors, which include ING Investment Trust Co., the trustee of the assets, and Sibson Consulting, the plan's actuaries. The company's Chief Financial Officer started working at Augsburg Fortress after the plan stopped allowing new participants, so was therefore, never in the plan. The Board of Trustees amended the plan to provide that the Chief Executive Officer is not eligible for a lump sum distribution upon plan termination. This was done at her request to keep this cash in the plan for distribution to the balance of the plan participants getting a lump sum distribution.

10. Why can't the ELCA churchwide organization make up the funding deficiency in the plan?

A. We thoroughly explored options for overcoming the funding deficiency, including seeking support from the ELCA churchwide organization. However, the ELCA churchwide organization advised us that it has no obligations or fiduciary duties with respect to the Augsburg Fortress plan. Augsburg Fortress is a separately incorporated program unit of the ELCA and our retirement plan is separate from any plan sponsored by the ELCA.

11. Why didn't the Administrative Committee for the plan take actions to prevent the funding deficiency in the plan or minimize its consequences?

A. The Administrative Committee, working with outside counsel and the plan's actuaries, took a number of actions to attempt to sustain the plan. These included freezing benefit accruals and eliminating increases to benefits from future cost-of-living-adjustments.

12. What will be the tax implications of receiving a lump sum distribution from the plan in 2010?

Q. The lump sum distributions will be taxable income to you, unless you timely complete the paperwork to transfer the distribution directly, or roll the distribution over, to another retirement plan or IRA. You will receive the instruction regarding rollover in January 2010 when you receive the additional information about your lump sum distribution amount. You should consult your personal financial advisors or tax preparers about the expected lump sum distribution as soon as possible. The lump sum distribution will likely have income tax consequences for you if you do not roll it over in a timely manner.

13. When will monthly distributions from the plan to participants stop?

A. The March 1, 2010 benefit payment will be the last monthly distribution from the plan.

14. Did Augsburg Fortress make all required contributions to the plan?

A. There are no required plan contributions. The plan states that Augsburg Fortress "shall make such contributions to the Fund from time to time, as it considers advisable." Nonetheless, Augsburg Fortress made contributions to the plan in every year when Augsburg Fortress did not have an operating loss, and even in many years in which it did have an operating loss. For example, this year, Augsburg Fortress made a $900,000 plan contribution despite expected operating losses.

15. Where can I obtain a copy of the most recent plan document and plan summary?

A. By written request to Sandy Middendorf at Augsburg Fortress Publishers, 100 South Fifth Street, Suite 600, Minneapolis, MN 55402.

16. How do the current actions impact the decision made last summer to terminate the Retirement Plan I for Employees of Augsburg Fortress Publishers (plan I) and have Aetna Insurance Company buy annuities to fund the guaranteed benefits in plan I?

A. Current actions have no effect on these prior decisions. If you are receiving a guaranteed benefit from Aetna, you will continue receiving that benefit. Current actions will impact only the nonguaranteed portion of your benefits (all the benefits in plan II), including the cost of living adjustments.

17. Are current Augsburg Fortress employees now without a retirement plan?

A. No. Employees are eligible to participate in a defined contribution plan – a 403(b) plan common among not-for-profit organizations.

18. Does Augsburg Fortress match employee contributions to its 403(b) plan?

A. Yes; Augsburg Fortress matches half of each eligible employee's contributions to the 403(b) plan up to the first 6% of an employee's eligible compensation.