METROMEDIA INTERNATIONAL GROUP INC
Form SC 14D9
July 18, 2007

Table of Contents

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14D-9
SOLICITATION/RECOMMENDATION STATEMENT UNDER
SECTION 14(D)(4) OF THE SECURITIES EXCHANGE ACT OF 1934
METROMEDIA INTERNATIONAL GROUP, INC.
(Name of Subject Company)
METROMEDIA INTERNATIONAL GROUP, INC.
(Name of Person Filing Statement)
Common Stock, par value $0.01 per share
(Title of Class of Securities)
591695101
(CUSIP Number of Class of Securities)
Natalia Alexeeva, Esq.
Vice President and General Counsel
Metromedia International Group, Inc.
8000 Tower Point Drive
Charlotte, North Carolina 28227
(704) 321-7380
(Name, Address and Telephone Number of Person
Authorized to Receive Notice and Communications
on Behalf of the Person(s) Filing Statement)
Copy to:
James M. Dubin, Esq.
Jeffrey D. Marell, Esq.
Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, New York 10019-6064
(212) 373-3000

o Check this box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Item 1. Subject Company Information	1
Item 2. Identity and Background of Filing Person	1
Item 3. Past Contacts, Transactions, Negotiations and Agreements	4
Item 4. The Solicitation or Recommendation	15
Item 5. Persons/Assets Retained, Employed, Compensated or Used	67
Item 6. Interest in Securities of the Subject Company	68
Item 7. Purpose of the Transaction and Plans or Proposals	68
Item 8. Additional Information	68
Item 9. Exhibits	83

SIGNATURE
ANNEX I Opinion of Evercore Group L.L.C.
Letter to Stockholders
Section 262 of the Delaware General Corporation Law

Table of Contents

Item 1. Subject Company Information.

Name and Address

The name of the subject company is Metromedia International Group, Inc., a Delaware corporation (*Metromedia* or the *Company*). The address of Metromedia s principal executive office is 8000 Tower Point Drive, Charlotte, North Carolina 28227, and the telephone number of Metromedia at that address is (704) 321-7380.

Securities

This solicitation/recommendation statement on Schedule 14D-9 relates to the shares of Metromedia s common stock, par value $0.01 per share (the *Common Stock* and the holders thereof, *Common Stockholders*). As of July 13, 2007, there were 103,254,947 shares of Common Stock issued and outstanding (which includes 9,110,000 shares of restricted Common Stock granted under the Metromedia International Group, Inc. 2007 Stock Incentive Plan (the *Stock Incentive Plan*), and there were 240,000 shares of Common Stock issuable upon or otherwise deliverable in connection with the exercise of outstanding options and warrants.

Item 2. Identity and Background of Filing Person.

Name and Address

The name, business address and business telephone number of Metromedia, which is the subject company and the entity filing this statement, are set forth under Item 1. Metromedia s Internet address is www.metromedia-group.com. Information contained on Metromedia s website does not constitute a part of this statement. The website address is an inactive text reference and is not intended to be an actual link to the website.

Tender Offer

This statement relates to the tender offer (the *Offer*) by CaucusCom Mergerco Corp., a Delaware corporation (*Purchaser*) and a wholly-owned subsidiary of CaucusCom Ventures L.P., a British Virgin Islands limited partnership (*Parent*), to purchase any and all of the outstanding shares of Common Stock at a price of $1.80 per share, net to the sellers in cash without interest, on the terms and subject to the conditions set forth in Purchaser s offer to purchase, dated July 18, 2007, and the related letter of transmittal. Parent is jointly owned by certain affiliates of Salford Capital Partners Inc., an international private equity and investment management firm based in the British Virgin Islands (*Salford*), and Compound Capital Limited, an international private investment firm based in Bermuda (*Compound*). Compound is a subsidiary of Sun Capital Partners Ltd., a U.K.-based private investment firm (*Sun Capital*). (Compound has advised the Company that Sun Capital is not affiliated with, and has no relationship to, the U.S.-based private investment firm Sun Capital Partners, Inc.)

Table of Contents

The Offer is being made pursuant to the Agreement and Plan of Merger, dated as of July 17, 2007 (the *Merger Agreement*), by and among Metromedia, Purchaser and Parent. Pursuant to the Merger Agreement, Purchaser has agreed to make an offer to purchase any and all of the outstanding shares of Common Stock at a price of $1.80 per share, net to the sellers in cash without interest, on the terms and subject to the conditions set forth in the Merger Agreement. Purchaser s obligation to purchase shares tendered in the Offer is subject to certain conditions, including that there shall have been validly tendered and not withdrawn prior to the expiration date of the Offer, as it may be extended in accordance with the terms and conditions of the Merger Agreement, a number of shares of Common Stock equal to not less than the *sum* of (x) 63,300,000 shares of Common Stock (which equals approximately 61.3% of the issued and outstanding Common Stock as of the date hereof) *plus* (y) the total number of shares of Common Stock, if any, issued or issuable (but not yet issued) in response to any notice of election, duly and validly given to the Company (and not subsequently withdrawn) on or prior to the expiration date of the Offer, to exercise an option or warrant or to convert shares of Metromedia s 7.25% cumulative convertible preferred stock, par value $1.00 per share (the *Preferred Stock* and the holders thereof, the *Preferred Stockholders*)) after the date of the Merger Agreement and prior to the expiration date of the Offer (such number, the *Original Minimum Condition*). Pursuant to the Merger Agreement, Purchaser is permitted on a single occasion to lower the Original Minimum Condition to a level not less than (x) 56,182,474 shares of Common Stock (which equals approximately 54.43% of the issued and outstanding Common Stock as of the date hereof) *plus* (y) 50% of the total number of shares of Common Stock, if any, issued or issuable (solely in the case of shares of Common Stock issuable, such shares of Common Stock issuable but not yet issued in response to any notice, duly and validly given (and not subsequently withdrawn) by a holder to the Company on or prior to the expiration date of the Offer, of election to exercise a Company stock option or warrant or to convert shares of preferred stock) after the date of the Merger Agreement and prior to the expiration date of the Offer (the *Lowered Minimum Condition*). The Lowered Minimum Condition represents the number of shares of Common Stock constituting a majority of the issued and outstanding Common Stock, excluding the shares of restricted Common Stock granted to Mark S. Hauf, the Company s Chairman, President and Chief Executive Officer, pursuant to the restricted stock award agreement described in the notes to the beneficial ownership charts included in the section in Item 3 entitled, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters .

If the Offer is completed and, as applicable, the top-up option (as described below) is exercised or the Company obtains the requisite stockholder approval, the Merger Agreement provides that, subject to the terms and conditions set forth therein, Purchaser will merge with and into Metromedia, with Metromedia continuing as the surviving corporation (the *Merger*). In the Merger, all remaining outstanding shares of Common Stock will be cancelled and converted into the right to receive the offer price of $1.80 per share in cash. The Preferred Stock will remain outstanding following the Merger.

Table of Contents

The initial expiration date for the Offer is August 14, 2007, subject to extension in certain circumstances as required or permitted by the Merger Agreement and applicable law. The Merger Agreement also provides that, if the Original Minimum Condition is reduced by Purchaser as described above and the Offer is completed, but the total number of shares of Common Stock acquired by Purchaser is less than the Original Minimum Condition, then Purchaser will commence a subsequent offering period to acquire additional Common Stock, for a period of not less than ten or more than twenty business days. During the subsequent offering period, if any, shares of Common Stock not tendered and purchased in the Offer during the original offering period may be tendered to Purchaser for the same consideration paid for shares tendered during the initial offering period of the Offer.

Pursuant to the Merger Agreement, Metromedia granted Purchaser an option (the *top-up option*) to purchase such additional shares of Common Stock as are authorized for issuance but not issued and outstanding following the completion of the Offer. The top-up option may be exercised if, and for a number of shares such that, after the exercise of the top-up option, Purchaser will own at least one share in excess of 90% of the then issued and outstanding shares of Common Stock (after giving effect to the exercise of the top-up option).

In the event following consummation of the Offer, Purchaser is not able to exercise the aforementioned top-up option and therefore does not own at least 90% of the outstanding shares of Common Stock, then as promptly as reasonably practicable following the Company becoming current with respect to the filing of all outstanding periodic reports required to be filed with the U.S. Securities and Exchange Commission, or having received a waiver from the SEC with respect thereto, the Company shall prepare and file with the SEC a proxy or information statement and shall duly convene and hold a meeting of its stockholders for the purpose of obtaining approval of the Merger Agreement, the Merger and the other transactions contemplated thereby.

Additional information about the Offer can be found in Item 3 and Item 8 of this document, and in the offer to purchase.

Parent and Purchaser were formed by affiliates of Salford and Compound for the purposes of the transactions contemplated by the Merger Agreement, including the Offer and the Merger. The addresses and telephone numbers of the principal executive offices of Purchaser are c/o Salford, 7th Floor, Norfolk House, 31 St. James Square, London SW1Y 4JJ, United Kingdom and the telephone number of Purchaser at that address is +44 20 7004 7900.

A copy of the Merger Agreement is attached to this document as Exhibit (e)(1) and is incorporated herein by reference in its entirety. A copy of the offer to purchase is attached to this document as Exhibit (a)(2). The terms and conditions of the Offer, related procedures and withdrawal rights, and the description of the Merger Agreement and related documents described and contained in Sections 1, 2, 3, 4, 5, 7, 13 and 17 of the offer to purchase are incorporated by reference herein. A form of the letter

Table of Contents

of transmittal is attached to this document as Exhibit (a)(3) and is incorporated herein by reference in its entirety.

Item 3. Past Contacts, Transactions, Negotiations and Agreements.

Except as described below or incorporated by reference into this document, to the knowledge of Metromedia, as of the date of this document, with respect to the Offer, the Merger and the Merger Agreement, there are no material agreements, arrangements or understandings, and no actual or potential conflicts of interest, between Metromedia and its affiliates, on the one hand, and (1) Metromedia s executive officers, directors or affiliates or (2) Purchaser or its executive officers, directors or affiliates, on the other hand.

Agreements with Purchaser

The Merger Agreement. The summary and description of the Merger Agreement contained in Section 13 of the offer to purchase, and the description of the conditions of the Offer contained in Section 15 of the offer to purchase, are incorporated into this document by reference. These summaries and descriptions are qualified in their entirety by reference to the Merger Agreement, which has been filed as Exhibit (e)(1) to this document and is incorporated herein by reference.

The Merger Agreement has been filed to provide investors with information regarding its terms. It is not intended to provide any other factual information about Metromedia, Parent or Purchaser. In particular, the assertions embodied in the representations and warranties contained in the Merger Agreement are qualified by information in confidential disclosure schedules provided by Metromedia to Parent and Purchaser in connection with the signing of the Merger Agreement. These disclosure schedules contain information that modifies, qualifies and creates exceptions to the representations and warranties set forth in the Merger Agreement. Moreover, certain representations and warranties in the Merger Agreement were used for the purpose of allocating risk between Metromedia, Parent and Purchaser, rather than establishing matters as facts. Accordingly, you should not rely on the representations and warranties in the Merger Agreement as characterizations of the actual state of facts about Metromedia, Parent or Purchaser.

Tender and Support Agreement. In connection with the execution of the Merger Agreement, Metromedia Company, News America Incorporated and Mr. Hauf have entered into a tender and support agreement with Parent and Purchaser (the *Support Agreement*), pursuant to which such stockholders have agreed to tender their shares of Common Stock in the Offer and vote any shares of Common Stock owned by such stockholders in favor of the Merger and against any proposal inconsistent with the Merger. The Support Agreement also includes a covenant by these stockholders not to transfer or otherwise dispose of any Company capital stock prior to completion of the Merger (or termination of the Support Agreement) and non-solicitation covenants consistent with those granted by the Company pursuant to the Merger Agreement. The Support Agreement does not impose obligations on directors or officers of the Company

Table of Contents

acting in such capacity. The Support Agreement terminates upon the earlier of (i) consummation of the Offer and (ii) termination of the Merger Agreement.

Confidentiality Agreements. In connection with its exploration of strategic alternatives, Metromedia entered into confidentiality agreements with Salford and Sun Capital, dated April 10, 2007 and May 10, 2007, respectively. Under these confidentiality agreements, Salford and Sun Capital (and its affiliate, Compound) each agreed, subject to certain exceptions, to keep confidential any non-public information concerning Metromedia.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth, as of June 30, 2007, certain information regarding each person, including any group as that term is used in Section 13(d)(3) of the Exchange Act, known to own beneficially , as such term is defined in Rule 13d-3 under the Exchange Act, more than 5% of the Company s outstanding Common Stock. In accordance with the rules promulgated by the SEC, such ownership includes shares currently owned as well as shares which the named person has the right to acquire beneficial ownership of within 60 days, including shares which the named person has the right to acquire through the exercise of any option, warrant or right, or through the conversion of a security. Accordingly, more than one person may be deemed to be a beneficial owner of the same securities.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned(1)	Percentage of Outstanding Common Stock
Metromedia Company One Meadowlands Plaza East Rutherford, NJ 07073	12,415,455	12.0%
John W. Kluge 810 Seventh Avenue New York, New York 10019	17,686,669(2)(8)	17.0%
Stuart Subotnick 810 Seventh Avenue New York, New York 10019	18,000,994(2)(8)	17.3%
Black Horse Group of Companies 45 Rockefeller Plaza, 20(th) Floor New York, NY 10011	9,947,670(3)(8)	9.6%
News PLD LLC 1211 Avenue of the Americas New York, New York 10036	9,136,744(4)	8.8%
Mark Hauf 8000 Tower Point Drive Charlotte, North Carolina 28227	9,110,000(5)	8.8%

Table of Contents

6

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned(1)	Percentage of Outstanding Common Stock
FURSA Alternative Strategies LLC 444 Merrick Road, 1st Floor Lynbrook, New York 11563	7,907,610(6)	7.7%
D.E. Shaw Group of Companies 120 West 45(th) Street, Tower 45, 39th Floor New York, NY 10036	6,813,000(7)	6.6%

(1) Unless otherwise indicated by footnote, the named persons have sole voting and investment power with respect to the shares of Common Stock beneficially owned.

(2) The amounts set forth in the table above include 12,415,455 shares of Common Stock beneficially owned by Messrs. Kluge and Subotnick through Metromedia Company, a Delaware general partnership

owned and controlled by John W. Kluge and Stuart Subotnick. In addition, the amounts set forth for Mr. Kluge and Mr. Subotnick include shares owned directly by a trust affiliated with Mr. Kluge (the *Kluge Trust*) of which Mr. Subotnick is a trustee. The Kluge Trust directly owns 5,271,214 shares of Common Stock (which includes, on an as converted basis, 200,000 shares of 7.25% cumulative convertible Preferred Stock, that are currently convertible into 666,666 shares of Common Stock). Mr. Subotnick disclaims beneficial ownership of the shares owned by the Kluge Trust. The amount set forth above for Mr. Subotnick also includes 314,325 shares of Common

Stock owned directly by Mr. Subotnick.

(3) Pursuant to a report on Form 4 filed with the SEC on June 26, 2007. The amount set forth in the table includes (i) 5,972,468 shares of Common Stock owned by Black Horse Capital LP (the *BH Domestic Fund*), (ii) 1,927,833 shares of Common Stock beneficially owned by Black Horse Capital (QP) LP (the *BH QP Fund*) and (iii) 1,331,695 shares of Common Stock beneficially owned by Black Horse Capital Offshore, Ltd. (the *BH Offshore Fund*). In addition, the amounts set forth in the table also includes shares of Common Stock, on an converted basis, 196,282 shares of 7.25% cumulative convertible Preferred Stock, that are

currently convertible into 654,274 shares of Common Stock) and held by the following funds: (i) 419,900 shares of Common Stock owned by the BH Domestic Fund, (ii) 139,807 shares of Common Stock beneficially owned by the BH QP Fund and (iii) 94,567 shares of Common Stock beneficially owned by the BH Offshore Fund. Black Horse Capital Management LLC (*BH Management*) beneficially owns the shares held by the BH Domestic Fund and the BH QP Fund. Black Horse Capital Advisors LLC (*BH Advisors*) beneficially owns the shares held by the BH Offshore Fund. Mr. Dale Chappell and Mr. Brian Sheehy, controlling persons of each of BH Management

and BH Advisors, are each deemed to beneficially own the 9,886,270 shares of Common Stock owned by BH Management and BH Advisors. The amount set forth in the table also includes 61,400 shares of Common Stock beneficially owned by Mr. Sheehy personally (which includes, on an as converted basis, 840 shares of 7.25% cumulative convertible Preferred Stock, that are currently convertible into 2,800 shares of Common Stock).

Table of Contents

(4) Pursuant to a report on Schedule 13D filed with the SEC on October 8, 1999 by (i) The News Corporation Limited, a South Australia, Australia corporation, with its principal executive office located at 2 Holt Street, Sydney, New South Wales 2010, Australia, (ii) News America Incorporated, a Delaware corporation, with its principal executive office located at 1211 Avenue of the Americas, New York, New York 10036, (iii) News PLD LLC, a Delaware limited liability company, with its principal executive office located at 1211 Avenue of the Americas, New York, New York 10036, and (iv) K. Rupert Murdoch, a United States citizen, with his business address

at 10201 West Pico Boulevard, Los Angeles, CA 90035. News PLD LLC primarily holds, manages and otherwise deals with The News Corporation affiliates investment in the Company.

(5) An award of up to 9,110,000 shares of restricted Common Stock was granted by the Company to Mr. Hauf on May 25, 2007 pursuant to the Stock Incentive Plan. These shares of restricted Common Stock are subject to transfer and forfeiture conditions outlined in a restricted stock award agreement and in the Stock Incentive Plan. Of the total number of shares of Common Stock subject to the restricted stock award, 2,610,000 were granted in order to make Mr. Hauf whole, on a net after-tax basis, for potential golden

parachute excise taxes in the event of a change in control of the Company in which shareholders of the Company receive cash consideration. These shares vest only to the extent necessary to cover such excise taxes and will be forfeited to the extent not necessary for that purpose. The Company has also agreed to pay Mr. Hauf any additional cash payments necessary to keep him whole in respect of such taxes to the extent not covered by the vesting of these restricted shares. If a change in control occurs in which the Company s shareholders do not receive cash consideration, the Company will pay Mr. Hauf in cash to keep him whole for the golden parachute excise taxes. The remainder of the award, 6,500,000 shares, will vest according to the following

schedule: 50% vest on the first anniversary of the date the award was granted (which anniversary will first occur on May 25, 2008) and 25% vest on each of the second and third anniversaries of the date of grant, subject to Mr. Hauf s continued employment with the Company on each such vesting date. In addition, any unvested portion of the award will fully vest immediately (i) upon a change in control of the Company, (ii) upon termination of Mr. Hauf s employment by the Company without cause, (iii) if Mr. Hauf resigns for good reason, (iv) upon Mr. Hauf s death or (v) upon the termination of Mr. Hauf s employment by the Company due to Mr. Hauf s disability. (Change in control has the same meaning as in the Stock

Incentive Plan; cause, good reason and disability are defined in the restricted stock award agreement.)

(6) Pursuant to a report on Schedule 13D/A filed with the SEC on July 3, 2007 by FURSA Alternative Strategies LLC, a Delaware limited liability company, with principal executive offices at 444 Merrick Road, 1st Floor, Lynbrook, New York 11563.

(7) Pursuant to a report of Schedule 13D/A filed with the SEC on December 19, 2006 by (i) D.E. Shaw Laminar Portfolio, L.L.C., a Delaware limited liability company, (ii) D.E. Shaw & Co., L.P., a Delaware limited partnership, (iii) David E. Shaw & Co., L.L.C., a Delaware limited liability company and (iv) David E. Shaw, a United

States

Table of Contents

citizen, all of which have a business address at 120 West 45th Street, Tower 45, 39th Floor, New York, New York 10036.

(8) Upon a holder s decision to convert shares of Preferred Stock to shares of Common Stock, all accrued and/or accumulated dividends are immediately due and payable and may be paid, at the Company s option, either in cash, in shares of Common Stock or by a combination of cash and Common Stock. By way of example only, based on the June 30, 2007, conversion value of currently accrued and/or accumulated dividends, if the Kluge Trust on that date had elected to convert its shares of Preferred Stock

and upon such election the Company decided to pay the outstanding dividends with Common Stock, then the Kluge Trust would have received an additional 379,971 shares of Common Stock, which would be in addition to those beneficially owned shares of Common Stock reported for Mr. Kluge and Mr. Subotnick.

Securities Beneficially Owned by Directors and Executive Officers

The following table sets forth the beneficial ownership of Common Stock as of June 30, 2007 with respect to (i) each director, (ii) each current and former executive officer of the Company named in the Summary Compensation Table under Executive Compensation and (iii) all directors and executive officers as a group.

Name of Beneficial Owner	**Number of Shares of Common Stock Beneficially Owned (1)(8)**	**Percentage of Outstanding Common Stock**
Mark S. Hauf	9,110,000(2)	8.7%
Harold F. Pyle, III	100,000	*
Natalia Alexeeva	-0-	*
B. Dean Elledge	635	*
David Lee	-0-	*
John S. Chalsty	60,000(3)	*
David Gale	81,833(4)(9)	*
Alan K. Greene	-0-	*
Wayne Henderson	-0-	*
Clark A. Johnson	284,500(5)	*
I. Martin Pompadur	110,000(6)	*
Stuart Subotnick	18,000,994(7)(9)	17.3%
All Directors and Executive Officers as a group (12 persons)	27,749,962	26.6%

* Holdings do not exceed one percent of the total outstanding shares of

Common Stock.

(1) Unless otherwise indicated by footnote, the named individuals have sole voting and investment power with respect to the shares of Common Stock beneficially owned.

(2) An award of up to 9,110,000 shares of restricted Common Stock was granted by the Company to Mr. Hauf on May 25, 2007 pursuant to the Stock Incentive Plan. The shares of restricted Common Stock are subject to transfer and forfeiture conditions outlined in the restricted stock award agreement and the Stock Incentive Plan. Of the total number of shares of Common Stock subject to the restricted stock award, 2,610,000 were granted in order to make

Mr. Hauf whole,
on a net
after-tax basis,
for potential

golden parachute excise taxes in the event of a change in control of the Company in which shareholders of the Company receive cash consideration. These shares vest only to the extent necessary to cover such excise taxes and will be forfeited to the extent not necessary for that purpose. The Company has also agreed to pay Mr. Hauf any additional cash payments necessary to keep him whole in respect of such taxes to the extent not covered by the vesting of these restricted shares. If a change in control occurs in which the Company s shareholders do not receive cash consideration, the Company will pay Mr. Hauf in cash to keep him whole for

the golden parachute excise taxes. The remainder of the award, 6,500,000 shares, will vest according to the following schedule: 50% vest on the first anniversary of the date the award was granted (which anniversary will first occur on May 25, 2008) and 25% vest on each of the second and third anniversaries of the date of grant, subject to Mr. Hauf s continued employment with the Company on each such vesting date. In addition, any unvested portion of the award will fully vest immediately (i) upon a change in control of the Company, (ii) upon termination of Mr. Hauf s employment by the Company without cause, (iii) if Mr. Hauf resigns for good reason, (iv) upon Mr. Hauf s death

or (v) upon the termination of Mr. Hauf s employment by the Company due to Mr. Hauf s disability. (Change in control has the same meaning as in the Stock Incentive Plan; cause, good reason and disability are defined in the restricted stock award agreement.)

(3) Includes currently exercisable options to acquire 50,000 shares and 10,000 shares of Common Stock at exercise prices of $0.36 and $0.50 per share, respectively, under the 1996 Stock Incentive Plan.

(4) Includes 21,000 shares of Common Stock beneficially owned through Delta Dividend Group, Inc., of which Mr. Gale is President and majority (55%) owner. In addition, includes on an

as converted basis 18,250 shares of Preferred Stock, beneficially owned through Delta Dividend Group, Inc., which shares are currently convertible into 60,773 shares of Common Stock.

(5) Includes currently exercisable options to acquire 50,000 and 5,000 shares of Common Stock at exercise prices of $2.80 and $11.875 per share, respectively, under the 1996 Stock Incentive Plan.

(6) Includes currently exercisable options to acquire 50,000; 50,000; and 10,000 shares of Common Stock at exercise prices of $4.50; $2.80; and $0.50 per share, respectively, under the 1996 Stock Incentive Plan.

(7) Includes 12,415,455 shares of

Common Stock beneficially owned by Mr. Kluge and Mr. Subotnick through Metromedia Company, a Delaware general partnership owned and controlled by Messrs. Kluge and Subotnick. In addition, the amounts set forth for Mr. Subotnick include shares directly owned by the Kluge Trust. The Kluge Trust directly owns 5,271,214 shares of Common Stock (which includes, on an as converted basis, 200,000 shares of Preferred Stock, which are currently convertible into 666,666 shares of Common Stock). Mr. Subotnick disclaims beneficial ownership of the shares owned by the Kluge Trust. The amount set forth for Mr. Subotnick also includes 314,325 shares

of Common
Stock owned
directly by
Mr. Subotnick.

(8) Includes currently exercisable options to acquire shares of Common Stock in the amounts and at the exercise prices set forth in the footnotes above, and also includes, on an as converted basis, 218,250 shares of Preferred Stock, which are currently convertible into 727,499 shares of Common Stock.

(9) Upon a holder s decision to convert shares of Preferred Stock to shares of Common Stock, all accrued and/or accumulated dividends are immediately due and payable and may be paid, at the Company s option, either in cash, in shares of Common Stock or by a combination of cash and Common Stock. By way of example only,

based on the June 30, 2007, conversion value of currently accrued and/or accumulated dividends, if the Kluge Trust on that date had elected to convert its shares of Preferred Stock and upon such election the Company decided to pay the outstanding dividends with Common Stock, then the Kluge Trust would have received an additional 379,971 shares of Common Stock, which would be in addition to those beneficially owned shares of Common Stock reported for Mr. Subotnick. Were Mr. Gale to have elected to convert his Preferred Stock under the same conditions, then Mr. Gale would have received an additional 34,672 shares of Common Stock, which would be in addition to those beneficially owned shares of

Common Stock
reported for
Mr. Gale.

Effects of the Offer and the Merger on Metromedia s Equity Compensation Plans and Agreements and Arrangements between Metromedia and its Executive Officers and Directors

Certain members of Metromedia s management and board of directors (the *Board*) may be deemed to have interests in the transactions contemplated by the Merger Agreement that are in addition to or different from their interests as Metromedia stockholders generally. The Board was aware of these interests, and considered them, among other matters, in approving (with Mr. Gale dissenting) the Merger Agreement and the transactions contemplated thereby. As described below, the consummation of the Offer will constitute a change in control of Metromedia for the purpose of determining whether Metromedia directors and executive officers are entitled to certain benefits.

Restricted Stock Award

As of the date hereof, the Company s Chairman, President and Chief Executive Officer, Mark S. Hauf, holds 9,110,000 shares of restricted Common Stock, which were granted to him by the Company on May 25, 2007, pursuant to the Stock Incentive Plan. None of these shares are currently vested.

Of the total number of shares subject to this restricted stock award, 6,500,000 shares will fully vest immediately prior to the consummation of a change in control of the Company. The consummation of the Offer will constitute a change in control for these purposes. As such, the total value of these shares will equal $11,700,000, based on the $1.80 per share price in the Offer.

The remaining 2,610,000 shares subject to the restricted stock award were granted in order to make Mr. Hauf whole, on a net after-tax basis, for potential golden

parachute excise taxes in the event of a change in control of the Company in which stockholders of the Company receive cash consideration. These shares vest only to the extent necessary to cover such excise taxes and will be forfeited to the extent not necessary for that purpose. If all of these shares vest, the total value of the shares will equal $4,698,000, based on the $1.80 per share price in the Offer. The Company has also agreed to pay Mr. Hauf any additional cash payments necessary to keep him whole in respect of such taxes to the extent not covered by the vesting of these restricted shares. If a change in control occurs in which the Company s stockholders do not receive cash consideration, the Company will pay Mr. Hauf in cash to keep him whole for the golden parachute excise taxes.

Stock Options

Pursuant to the Merger Agreement, all unexercised options to purchase shares of Common Stock that were issued under the Metromedia International Group, Inc. 1996 Incentive Stock Plan, as amended and restated effective November 12, 1997 (the *1996 Plan*), all of which are vested as of the date hereof, will be cancelled in the Merger in exchange for the right of each option holder to receive a cash payment equal to the excess, if any, of the $1.80 per share merger consideration over the exercise price per share of such holder s options. As of the date hereof, certain directors of the Company hold unexercised options granted under the 1996 Plan; no executive officers of the Company hold any such options.

The following table sets forth the total number of vested stock options held as of the date hereof by each director, the exercise price per option and the cash payment that each director will be entitled to receive in connection with the Merger Agreement, based on a $1.80 per share price. To the extent any director holds options with an exercise price that is equal to or greater than $1.80 per share, he will not receive any cash in connection with the Merger Agreement, and his options will be cancelled.

	Exercise Price	**Options Outstanding**	**Value Realized from Cancellation of Options for Consideration**(1)
John Chalsty	$0.3600	50,000	$ 72,000
	$0.5000	10,000	$ 13,000
I. Martin Pompadur	$0.5000	10,000	$ 13,000

(1) The dollar amount for each director in the Value Realized from Cancellation of Options for Consideration column is equal to the difference between $1.80 and the exercise price of the relevant options multiplied by

the number of shares of Common Stock underlying the vested options held immediately prior to the Merger.

CEO Severance Pay

Mr. Hauf has entered into an employment agreement with the Company, which provides for certain severance payments and benefits if Mr. Hauf is terminated by

Table of Contents

the Company without cause or by Mr. Hauf with good reason (as cause and good reason are defined in the employment agreement), subject to Mr. Hauf s execution of a release of claims and continued compliance with certain restrictive covenants. The severance payments consist of continued payment of Mr. Hauf s base salary for (i) 18 months, if his termination of employment does not occur within the one-year period following a change in control, or (ii) 36 months, if his termination occurs within the one-year period following a change in control. The consummation of the Offer will be a change in control for purposes of the employment agreement. The employment agreement also provides that, if necessary to avoid the application of Section 409A of the U.S. Internal Revenue Code, Mr. Hauf will not receive any of the above amounts until six months after his termination of employment or his death. If Mr. Hauf receives severance pursuant to clause (i) above, it will equal $825,000; if he receives severance pursuant to clause (ii) above, it will equal $1,650,000. The other severance benefit consists of continued medical and dental insurance for the applicable period of salary continuation described above.

Stay Bonus Award for Mr. Elledge

On May 25, 2007, the Company entered into a stay bonus agreement with B. Dean Elledge, the Company s Vice President of Finance and Chief Accounting Officer, to pay Mr. Elledge a $50,000 stay bonus if Mr. Elledge remains employed with the Company for nine months after such date. If Mr. Elledge s employment is terminated before the expiration of nine months, either (i) by the Company without cause, or (ii) following a change in control, by Mr. Elledge for good reason (as cause and good reason are defined in the stay bonus agreement), he will receive the stay bonus on the date of termination. The consummation of the Offer will constitute a change in control for purposes of Mr. Elledge s stay bonus agreement.

Transaction Bonus Awards

On July 13, 2007, Metromedia entered into Transaction Bonus and Severance Agreements (the Transaction Bonus and Severance Agreements) with each of Harold F. Pyle, III, the Company s Chief Financial Officer, Mr. Elledge and Natalia Alexeeva, the Company s Vice President, General Counsel and Secretary.

Pursuant to the Transaction Bonus and Severance Agreements, each officer party thereto is entitled to receive the following payments and benefits:

Transaction Bonus. Each officer will receive a cash bonus, paid in a single lump sum (the Transaction Bonus), upon the consummation, prior to December 31, 2007, of the transactions contemplated by the Merger Agreement, or any other transaction involving a sale by the Company of its securities or assets entered into in lieu of such transactions (an Alternative Transaction). If a change in control occurs in connection with the cash tender offer component of the transactions contemplated by the Merger Agreement or an Alternative Transaction, and, following such change in control but prior to the payment of the Transaction Bonus, the officer s employment is terminated by the Company without cause or the officer resigns with good reason, then

such officer will receive the Transaction Bonus on the date of his or her termination of employment. (Change in control , cause and good reason are all defined in the Transaction Bonus and Severance Agreements.) The Transaction Bonus that Messrs. Pyle and Elledge may become entitled to is, for each officer, $175,000. The Transaction Bonus that Ms. Alexeeva may become entitled to is $100,000.

Severance. The Company will provide each officer with severance in the form of salary continuation for the periods specified below. The severance will be payable upon termination of the employment of any such officer by the Company other than for cause or due to his or her disability, or if such officer resigns with good reason. Each such officer will also continue to receive, during such salary continuation period, medical and dental benefits at the same level of benefit in effect immediately prior to the date of termination, at the Company s expense. For Messrs. Pyle and Elledge, any severance that the officer may become entitled to under the Transaction Bonus and Severance Agreements upon a termination of employment by the Company without cause will be offset by the officer s right to severance in such circumstance pursuant to bonus letters entered into between the officer and the Company on August 4, 2005.

Severance Benefits Salary and Benefits Continuation Period

Name	Involuntary Termination Before a Change in Control	Involuntary Termination Within One Year After a Change in Control
Mr. Pyle	6 months	12 months
Mr. Elledge	3 months	6 months
Ms. Alexeeva	3 months	6 months

Other Executive Severance Pay

Under the terms of bonus letters entered into between the Company and each of Messrs. Pyle and Elledge, such executives are entitled to one-time cash bonuses if certain performance requirements are met. The Offer and the other transactions contemplated by the Merger Agreement will not trigger the payment of these bonuses. However, the bonus letters do provide that, if either Mr. Pyle or Mr. Elledge is terminated at any time by the Company without cause (as defined in the bonus agreements), then the executives are each entitled to a one-time, lump-sum cash bonus equal to $416,500 for Mr. Pyle and $233,000 for Mr. Elledge (*Bonus Severance*). However, if as a result of the termination of the employment of Mr. Pyle or Mr. Elledge, such executive becomes entitled to receive the Bonus Severance, then there will be a dollar for dollar offset from the severance Mr. Pyle or Mr. Elledge (as applicable) would otherwise be eligible to receive under the Transaction Bonus and Severance Agreements described above.

Best Price Rule Approval

In connection with the approval by a majority of the Board (with Mr. Gale dissenting) of the Merger Agreement, the Compensation Committee of the Company

Board (composed solely of independent directors in accordance with the requirements of Rule 14d-10(d)(2) under the Exchange Act and the instructions thereto) unanimously approved, in accordance with the non-exclusive safe harbor provisions contained in Rule 14d-10 under the Exchange Act, applicable aspects of the foregoing compensation arrangements as employment compensation, severance or other employee benefit arrangements within the meaning of Rule 14d-10(d)(2) under the Exchange Act.

Director and Officer Indemnification and Insurance.

The Merger Agreement provides that, from and after the effective time of the Merger, Parent will, and will cause the surviving corporation in the Merger to, cause the Certificate of Incorporation and Bylaws or similar organizational documents of the surviving corporation and its subsidiaries to contain provisions no less favorable with respect to indemnification than are set forth in the Certificate of Incorporation and Bylaws, respectively, or similar organizational documents of the Company and its subsidiaries as of the date of execution of the Merger Agreement for a period of six years. The Merger Agreement also provides that, from and after the effective time, Parent will, and will cause the surviving corporation to, fulfill and honor in all respects, to the fullest extent permitted under applicable law, the obligations of the Company pursuant to any indemnification, exculpation and advancement of expenses provisions in favor of each present or former director or officer of the Company or any of its Subsidiaries (collectively, the *Indemnified Parties*) contained in the Certificate of Incorporation or Bylaws of the Company or similar organizational documents of its subsidiaries, or in any agreement between an Indemnified Party and the Company in effect as of the date of the Merger Agreement, with respect to any costs and expenses (including reasonable attorneys fees), judgments, fines, losses, claims, damages, liabilities and settlement amounts paid in connection with any claim, action, suit, proceeding or investigation (whether arising before or after the effective time of the Merger), whether civil, criminal, administrative or investigative, arising out of or pertaining to any action or omission, in his or her capacity as a director or officer of the Company or any of its subsidiaries, occurring at or before the effective time of the Merger. In the event of any such claim, action, suit, proceeding or investigation, the Merger Agreement provides that (i) the surviving corporation will pay the reasonable fees and expenses of counsel selected by the Indemnified Parties, which counsel will be reasonably satisfactory to the surviving corporation, promptly after statements therefor are received (provided the applicable Indemnified Party provides an undertaking, to the extent required by applicable law, the Certificate of Incorporation or Bylaws of the Company or similar organizational documents of its subsidiaries, or by the applicable agreement between an Indemnified Party and the Company, to repay all advanced expenses if it is finally judicially determined that such Indemnified Party is not entitled to indemnification), and (ii) the surviving corporation will cooperate in the defense of any such matter; provided, however, that the surviving corporation will not be liable for any settlement effected without the surviving corporation s prior written consent; and provided, further, that the surviving corporation will not be obligated to pay the fees and expenses of more than one counsel (selected by a plurality of the applicable Indemnified Parties) for all Indemnified Parties in any jurisdiction with respect to any single action, except to the extent that two

or more of such Indemnified Parties will have conflicting interests in the outcome of such action. If any claim for indemnification is asserted or made within such six-year period, all rights to indemnification in respect of such claim will continue until the disposition of such claim.

The Merger Agreement further provides that, at or prior to the date that tendered shares are accepted and paid for by Purchaser (the *Acceptance Date*), the Company will purchase, at the Company s expense and subject to the prior approval of Parent (such approval not to be unreasonably withheld), an extended tail reporting period for the Company s directors and officers liability insurance in effect as of the date of the Merger Agreement (the *Current D&O Policy*). The extended tail reporting period will (i) be for an effective period of six years after the Acceptance Date, (ii) be for the benefit of persons who are covered by the Current D&O Policy, (iii) be purchased at a premium not in excess of $1.7 million and (iv) contain terms with respect to coverage and amount no less favorable than those contained in the Current D&O Policy. Notwithstanding the foregoing, if such extended tail reporting period cannot be obtained, or can only be obtained by the payment of a premium in excess of $1.7 million, then the Company will only be required to purchase such extended period, if any, as may be available for such length of time as can be obtained by the payment of a premium not in excess of such amount. The Merger Agreement provides that if such tail policy has been obtained by the Company prior to the Acceptance Date, Parent and the Company will maintain such tail policy in full force and effect for its full term and will continue to honor the Company s obligations thereunder.

Item 4. The Solicitation or Recommendation.

Background

From time to time over the course of the past several years, the Board and the Company s senior management, with their legal and financial advisors, reviewed and evaluated strategic opportunities and alternatives with a view toward enhancing stockholder value. The following describes this process and the events leading up to the Offer and the Merger, as contemplated by the Merger Agreement.

Information set forth below regarding Purchaser, Parent or their affiliates was provided by such parties. In preparing the following disclosure, the Company has relied on, and disclaims any responsibility for, the accuracy or completeness of such information, which without limiting the foregoing includes any information regarding meetings or discussions in which the Company did not participate.

On April 23, 2004, Metromedia entered into a binding memorandum of understanding (the *Magticom MOU*) with Dr. George Jokhtaberidze, co-founder of and strategic partner in Metromedia s Georgian mobile telephony business venture Magticom Ltd. (*Magticom*), providing for Dr. Jokhtaberidze to convey his 51% interest in Magticom to a wholly owned subsidiary of the Company, ITC Cellular, LLC (formerly International Telcell Cellular, Inc.) (*ITC Cellular*), in exchange for a 49.9% interest in ITC Cellular plus certain cash consideration. The Company was to retain the remaining

50.1% majority ownership of ITC Cellular, giving the Company an indirect 42.8% ownership interest in Magticom upon completion of all transactions contemplated by the Magticom MOU.

Around the time of the Magticom MOU, ITC Cellular entered into a memorandum of understanding with the Office of the Economic Advisor to the President of Georgia (the *Option MOU*) providing for ITC Cellular to issue an assignable option to purchase a 20% ownership interest in Magticom after completion of the transactions contemplated by the Magticom MOU. The option contemplated by the Option MOU was exercisable at a valuation of two-and-one-half (2.5) times the trailing twelve month EBITDA of Magticom. Upon exercise of the option contemplated by the Option MOU, the Company s interest in Magticom would have been reduced to 32.8%.

At a meeting of the Board held on July 29, 2004, the Company s senior management informed the Board of a number of unsolicited expressions of interest received from third parties interested in acquiring the Company s core assets in Russia, a 71% interest in ZAO PeterStar (*PeterStar*), and the country of Georgia, an effective 34.5% interest in Magticom at the time (subject to later change in consideration based on ability to exercise the Company s rights and obligations under the Magticom MOU and the Option MOU). At its meeting, the Board conducted a review of the Company s business plans, the potential value which might in the future be realized in connection with pursuing these business plans, the risks associated with pursuit of these business plans, the potential monetized values of its core assets which might be realized in the short run, and the risks involved in seeking to realize those values in various transactions. Senior management also provided an overview of the range of companies that might be interested in pursuing an acquisition of Company assets or other strategic transaction with the Company, the types of transactions that might be pursued, and the values that might be achievable. The Company s legal advisors reviewed with the Board the various structures any acquisition or other strategic transaction might take and the legal standards applicable to the Board s decision-making process. Following further discussion and deliberation, the Board concluded that it would be in the best interest of the Company and its stockholders to further explore specific strategic alternatives available to the Company.

At the July 29, 2004 meeting, the Board formed a Special Committee (the *Special Committee*) of independent directors in order to implement the review of strategic alternatives and make recommendations to the Board. The Board directed the Special Committee to work with senior management and the Company s legal advisors to analyze actions the Company could take to maximize value for its stockholders, including actions not involving a sale of the Company or its assets as well as the solicitation of proposals from third parties interested in purchasing the Company or all or certain of its assets (a *Potential Transaction*).

At a meeting of the Special Committee on July 29, 2004, the Special Committee authorized Mark Hauf, the Company s President and Chief Executive Officer, to contact interested third parties, including the parties with whom senior management

had prior contact as well as other prospective third parties, and to conduct exploratory discussions regarding pursuing a Potential Transaction. Throughout the months of August and September 2004, Mr. Hauf and other members of the Company s senior management held discussions with several interested third parties, executed a number of confidentiality agreements and provided preliminary due diligence materials to Potential Transaction partners.

On September 7 and 14, 2004, the Special Committee met to establish a timetable and set of procedures to govern the process by which the Special Committee would accept specific proposals from third parties interested in pursuing a Potential Transaction. The Special Committee also discussed the retention of a financial advisor for the Company and received a status update from Mr. Hauf on discussions between members of senior management and parties interested in pursuing a Potential Transaction.

During the weeks of September 13 and 20, 2004, the Special Committee, along with senior management and the Special Committee s legal advisors, met with several investment banking firms. After deliberation, the Special Committee retained Evercore Group L.L.C. (*Evercore*) to assist it and the Board in evaluating actions the Company could take to maximize value for its stockholders, including action with respect to proposals received from third parties interested in pursuing a Potential Transaction.

On September 27 and 28, 2004, the Special Committee received proposals from a number of third parties interested in pursuing a Potential Transaction. The proposals received included bids to purchase the Company as a whole and bids to purchase the Company s core assets in Russia and the country of Georgia.

Over the course of the next two days the Special Committee met with its legal and financial advisors in order to review, analyze and evaluate each of the proposals received. The Special Committee also sent a reply communication to each of the prospective bidders seeking additional information and certain clarifications with respect to their proposals in an effort to refine and standardize the proposals.

On October 1, 2004, the Special Committee received responses from certain of the prospective bidders. During the weekend of October 2 and 3, 2004, Company senior management engaged in informal exploratory discussions with representatives of two prospective bidder groups who submitted proposals for the acquisition of only certain of the Company s assets in order to determine whether they would be interested in submitting a joint proposal for the acquisition of the Company as a whole. The prospective bidders (collectively, the *2004 Group*) included First National Holding S.A. (*First National*) and Emergent Telecom Ventures S.A. (*Emergent*), who were interested in the acquisition of the Company s core assets in Russia, and Baring Vostok Capital Partners (Cyprus) Limited (*Baring Vostok*) and Capital International Private Equity Fund IV, L.P. (*Capital International*), who were interested in the acquisition of the Company s core assets in the country of Georgia.

On October 4, 2004, the Special Committee received a joint proposal from the 2004 Group for the acquisition of the Company as a whole. Later that day, the Special Committee met again with its legal and financial advisors in order to review, analyze and evaluate the responses received from certain of the prospective bidders to its reply communication and the joint proposal received from the 2004 Group. The Special Committee and its advisors also discussed the structure and mechanics of a Potential Transaction, including the tax treatment of the proposed Potential Transactions and a financial analysis prepared by Evercore of each of the proposals received. In addition, the Special Committee reviewed Evercore s analysis of the Company s stand-alone business plans, the potential values that the Company might achieve on a stand-alone basis, and the risks involved in seeking to achieve those values. Following these reviews and further discussion, the Special Committee determined to meet with each of the bidding parties in an effort to ensure that each party had made its best offer.

On October 5 and 6, 2004, the Special Committee, along with its legal and financial advisors, met in person with each of the prospective bidders who submitted proposals to the Special Committee, and who had responded to the Special Committee s reply communication seeking additional information and clarification with respect to such proposals or otherwise remained in continued correspondence with the Special Committee and its legal and financial advisors. Over the course of the following two weeks, senior management continued to have exploratory discussions with other third parties who executed confidentiality agreements with respect to a Potential Transaction, but these discussions did not result in any formal proposal for a Potential Transaction.

On October 7, 2004, the Special Committee and its advisors updated the Board on the processes and procedures the Special Committee followed in exploring a Potential Transaction. The Board received and discussed a financial analysis prepared by Evercore of each of the proposals received. In addition, the Board received and discussed Evercore s analysis of the Company s stand-alone business plans, the potential values that the Company might achieve on a stand-alone basis, and the risks involved in seeking to achieve those values. The Board and its legal and financial advisors discussed the anticipated process and timing to complete a Potential Transaction. The Board instructed Evercore to contact certain additional third parties who had not submitted proposals to the Special Committee with respect to a Potential Transaction to date to assess their interest in making a proposal.

On October 14, 2004, the Special Committee and its legal and financial advisors met with the 2004 Group to discuss the proposal they submitted jointly on October 4. In particular, the Special Committee and the 2004 Group discussed the structuring, financing and conditions of the 2004 Group s proposal.

On October 15, 2004, the Special Committee met with its legal and financial advisors to discuss the advisability of delaying the sale process in light of economic and political conditions and future prospects in eastern Europe. After deliberations and further discussion it was agreed that it was in the best interest of the

---

Table of Contents

Company and its stockholders for the Special Committee to continue to actively explore the possibility of a Potential Transaction.

At a meeting on October 24, 2004, the Board reviewed all the proposals received with respect to a Potential Transaction. At this meeting, senior management and the Company s legal and financial advisors reviewed with the Board the legal and financial aspects of the various proposals received to date, including the significant issues and risks of each proposal, the structure, mechanics and form of each proposal, the related tax treatment of each proposal and a financial analysis prepared by Evercore of each of the proposals received. The Board then commenced deliberations with respect to each of the proposals received. The two proposals that implied the highest enterprise value of the Company, including one submitted by the 2004 Group, were almost equal in terms of the value to be achieved by the Company s stakeholders. Accordingly, the Board s deliberations focused on the timing, financing risks and closing certainty related to these two proposals as well as the risks to the Company s business between the signing and consummation of any transaction contingent on the identity of the purchaser selected by the Company. After receiving advice from its legal and financial advisors, the Board determined that, subject to resolution of remaining issues, it would be in the Company s best interest and the best interests of the Company s stockholders to continue to try to resolve the remaining issues with the 2004 Group pertaining to the 2004 Group s proposal submitted on October 4, 2004. The Board instructed the Special Committee, senior management and the Company s legal and financial advisors to negotiate with the 2004 Group to try to resolve the remaining issues and enter into a non-binding letter of intent.

On November 2, 2004, the Special Committee met with its legal and financial advisors to discuss the terms and conditions set forth in the draft term sheet proposed by the 2004 Group and delivered to the Special Committee. At that meeting the Special Committee also retained the services of Houlihan Lokey Howard & Zukin Financial Advisors, Inc. (*Houlihan Lokey*) to assist it and the Board in evaluating the fairness of a Potential Transaction, from a financial point of view, to the Preferred Stockholders if any such transaction were to be consummated. During this time, the Company s senior management continued discussions with other third parties who had submitted proposals to the Special Committee. However, these discussions did not result in the submission of any new or revised proposals. Accordingly, the Special Committee, after consultation with their legal and financial advisors and members of senior management, decided to agree to the 2004 Group s request for the Company to enter into a non-binding letter of intent with the 2004 Group containing a customary non-solicitation agreement until January 17, 2005, and therefore cease discussions regarding a Potential Transaction with parties other than the 2004 Group during that time.

On November 3, 2004, the Company entered into a non-binding letter of intent with the 2004 Group, which provided for a merger of the Company with and into a special purpose vehicle to be formed by the 2004 Group. The letter of intent assigned an aggregate enterprise value to the Company of US $300 million (taking into account the Company s obligations under the Magticom MOU and the Option MOU), of which

approximately US $152 million was to be used to retire the Company s outstanding 10 1/2 % Senior Discount Notes Due 2007, and the remaining US $148 million, after reduction for certain transaction related expenses, was to be allocated between the Preferred Stockholders and the Common Stockholders in a manner to be determined by the Board prior to the execution of any definitive merger agreement. The 2004 Group s letter of intent contained a number of conditions, including, without limitation, the 2004 Group s successful completion of due diligence during a limited exclusivity period, the receipt of commitments for all financing contemplated in the 2004 Group s acquisition proposal, the attainment of projected corporate cash balance and liability levels of the Company, and negotiation and execution of definitive transaction agreements. The letter of intent also contained a customary non-solicitation agreement whereby the Company and its advisors were prevented from continuing discussions regarding a Potential Transaction with parties other than the 2004 Group. The Company initially granted the 2004 Group exclusivity until January 17, 2005 to pursue a due diligence review of the Company and negotiate a definitive merger agreement (subject to earlier termination under certain circumstances). However, the Company was permitted to terminate the letter of intent, including the exclusivity provisions, at any time upon payment of the expenses incurred by the 2004 Group in connection with its proposal, subject to a cap. The Company also authorized its legal advisors to prepare and negotiate the terms of definitive transaction documents.

On November 9, 2004, the Company s legal advisors sent a draft merger agreement to the legal advisors for the 2004 Group. At the same time, advisors for the 2004 Group began conducting substantial business, legal and tax due diligence on the Company and its subsidiaries. Commencing during the week of November 15, 2004, and continuing through December 15, 2004, senior management and the Company s legal and financial advisors engaged in discussions and meetings with advisors for the 2004 Group for the purpose of facilitating business, legal and tax due diligence on the Company and its subsidiaries, negotiating the merger agreement and certain ancillary agreements, and seeking to verify that the 2004 Group s financing contemplated in its acquisition proposal was satisfactorily committed and available.

Beginning on November 18, 2004, and continuing through February 1, 2005, senior management and the Company s legal and financial advisors engaged in discussions and meetings with representatives of an ad hoc group of Preferred Stockholders (the *2004 Preferred Group*) and certain significant Common Stockholders with respect to Company s strategic alternatives and the allocation of any merger consideration received upon consummation of the proposed merger with the 2004 Group. On December 2, 2004, the Company agreed to reimburse the 2004 Preferred Group for its reasonable out-of-pocket fees and expenses of counsel, up to a cap, incurred in connection with such discussions and meetings.

On November 23, 2004, the Board held a meeting to discuss the developments between senior management and the Company s legal and financial advisors, on the one hand, and representatives of the 2004 Group, on the other hand, with respect to the 2004 Group s proposal to acquire the Company. At this meeting,

Metromedia s senior management and its legal and financial advisors apprised the Board of discussions and negotiations with representatives of the 2004 Group. Evercore and Houlihan Lokey presented a preliminary valuation of the Company and its subsidiaries. Following the presentation by Evercore and Houlihan Lokey, the Board discussed the factors it would consider in allocating the merger consideration received in a transaction with the 2004 Group among the Company s stakeholders. The Board directed senior management and the Company s legal and financial advisors to continue to negotiate definitive agreements with the 2004 Group so that the 2004 Group would be in a position to reaffirm its preliminary proposal to acquire the Company.

Commencing on December 13, 2004, and continuing through January 6, 2005, the Company s legal and financial advisors engaged in discussions and negotiations with representatives of the 2004 Group and its advisors regarding the 2004 Group s ongoing business, legal and tax due diligence on the Company and its subsidiaries, the merger agreement and certain ancillary agreements to the merger agreement, and commitments for the 2004 Group s financing contemplated by its acquisition proposal. During this period, Capital International notified the Company that it was no longer part of the 2004 Group, and Baring Vostok informed the Company that it would fund the entire portion of the purchase price that was previously expected to be funded by Capital International.

On December 10 and 27, 2004, the Special Committee was briefed by its legal and financial advisors on the discussions and negotiations between senior management and the Company s legal and financial advisors, on the one hand, and advisors to the 2004 Group, on the other hand, with respect to the 2004 Group s proposal to acquire the Company by merger. The Special Committee reviewed the 2004 Group s progress in performing its business, legal and tax due diligence on the Company and its subsidiaries and considered the terms and conditions being negotiated in the definitive merger agreement and related ancillary documents with the representatives of the 2004 Group.

On January 5, 2005, the 2004 Group, without Capital International, confirmed to the Company that it had completed its due diligence investigation of the Company s core telephony businesses in Russia and the country of Georgia, and that its remaining due diligence work would focus principally on the Company itself. In addition, the 2004 Group confirmed that it continued to assign an aggregate enterprise value to the Company of $300 million in respect of the proposed merger. The 2004 Group notified the Company that it expected to need more time than it initially anticipated to complete its due diligence review of the Company and therefore requested that the Company extend the exclusivity period from January 17, 2005 to February 14, 2005. The Company agreed to the 2004 Group s request and granted the 2004 Group an extension of its exclusivity period to February 14, 2005.

On January 14, 2005, Esopus Creek Capital LLC (including its affiliates, *Esopus*) filed a complaint in the Delaware Court of Chancery, Civil Action No. 1006-N, requesting an order summarily requiring that the Company hold an annual

meeting of stockholders for the election of directors. On February 9, 2005, the Company announced that it would hold an annual meeting allowing for the election of directors simultaneously with any meeting called seeking a stockholder vote to approve a Potential Transaction and, if no such Potential Transaction was to arise prior to March 7, 2005, it would hold an annual meeting shortly thereafter. The Company later announced that it planned to hold a meeting of stockholders shortly following such time that the Company becomes current with its periodic filings with the United States Securities and Exchange Commission (the *SEC*). On March 29, 2005, Esopus filed a stipulation requesting that this case be dismissed and a dismissal was granted by the Delaware Court of Chancery on April 13, 2005.

On January 17, 2005, the Company received a letter dated January 14, 2005, on behalf of Esopus demanding the right to examine, inspect and copy certain books and records of the Company. By letter dated January 24, 2005, the Company rejected the request as premature and because the demand failed to comply with the requirements of Delaware Law.

On each of January 23 and February 1 and 2, 2005, the Board held a meeting to discuss, among other things, developments in the negotiations with the 2004 Group concerning the proposed merger. At the February 1 and February 2 meetings, senior management reported to the Board that the unaudited financial performance of Magticom for the fiscal year ended December 31, 2004 was unexpectedly higher than forecast. This improved performance was partially attributable to a favorable change in the currency exchange rate of Georgian lari to U.S. dollars. Senior management advised the Board that revised projections for Magticom were being prepared based on these most recent financial results. The Board directed senior management and Evercore to prepare a revised analysis and valuation of the Company and of its interest in Magticom in light of Magticom s most recent financial performance.

On February 8, 2005, the Board met with senior management and the Company s legal and financial advisors. Evercore presented the Board with a revised analysis and valuation of the Company and of its interest in Magticom. The Board determined that the price offered by the 2004 Group for the Company was too low in light of the most recent financial performance of Magticom. Accordingly, the Board instructed senior management and its legal and financial advisors to seek a purchase price increase from the 2004 Group to adequately reflect the increased value attributable to the Company s assets in the country of Georgia.

On February 11, 2005, the Special Committee met with senior management and its legal and financial advisors and conducted a review of the terms and conditions of the proposed transaction with the 2004 Group and considered the financial attributes of the proposed transaction and the Company s prospects if it were to sell only its interest in PeterStar and continue operating its business in the country of Georgia. Senior management also reported on phone calls and letters recently received from two separate third parties interested in exploring a Potential Transaction with the Company, one of which previously bid for the Company and its assets and one of which was

previously contacted, but was only now expressing its interest in exploring a Potential Transaction. Senior management advised the Special Committee that, in light of the exclusivity arrangement in place with the 2004 Group through February 14, the Company had not yet responded to either party, other than to inform each of them of the Company s obligations under its exclusivity arrangement with the 2004 Group.

Also on February 11, 2005, the Company purchased an additional 51% ownership interest in Telecom Georgia from the Georgian government for a cash purchase price of $5.0 million, thereby increasing its ownership interest in Telecom Georgia to 81%.

On February 14, 2005, the Company completed a restructuring of its interest in Magticom on terms reflecting those contained in the Magticom MOU. As part of the restructuring, the Company purchased an additional 8.3% interest in Magticom from Dr. Jokhtaberidze, thereby increasing the Company s ownership interest in Magticom to 42.8%. A wholly owned subsidiary of the Company issued a promissory note in the amount of $23,085,896 to Dr. Jokhtaberidze in payment of the additional 8.3% Magticom interest the Company obtained. Following the restructuring, the entity created to hold the Company s and Dr. Jokhtaberidze s interest in Magticom paid $15 million to the Georgian government to cancel all of the Georgian government s rights under the Option MOU. The $15 million payment was fully funded with cash contributions made by the Company and Dr. Jokhtaberidze in proportion to their respective 50.1% and 49.9% ownership interest in the entity that holds the Company s and Dr. Jokhtaberidze s interest in Magticom. With the consummation of these transactions, the Company became the owner of an effective 42.8% interest in Magticom with rights to exercise substantial oversight with respect to Magticom s continuing business operations.

Also on February 14, 2005, senior management and the Company s legal and financial advisors met in person with representatives of the 2004 Group and its advisors. The Company s legal and financial advisors informed the 2004 Group and its advisors that the Company would not proceed with the proposed transaction unless the 2004 Group increased the purchase price. Representatives of the 2004 Group responded that they would be willing to increase the purchase price from an enterprise value of $300 million to an enterprise value of approximately $317 million plus the assumption of the Company s obligations under the $23,085,896 promissory note issued to Dr. Jokhtaberidze in payment of the additional 8.3% interest in Magticom obtained by the Company.

Later on February 14, 2005, the Special Committee met with the senior management and its legal and financial advisors to discuss the increased enterprise value assigned to the Company by the 2004 Group. The Special Committee determined that the 2004 Group s revised proposal still did not adequately reflect sufficient value for the Company s increased ownership interest in Magticom based on reports of actual 2004 Magticom performance. As a result, the Special Committee decided that it could no longer recommend to the Board that the Company pursue the proposed merger with the

Table of Contents

2004 Group. In light of its decision, the Special Committee decided that it would allow the 2004 Group s exclusivity arrangement to expire on February 14, 2005 and the Special Committee directed the Company s senior management and legal and financial advisors, following the expiration of the 2004 Group s exclusivity, to contact the two parties that had recently expressed interest in pursuing a Potential Transaction with the Company in order to gauge their interest in any such transaction. The Special Committee also directed senior management and the Company s legal and financial advisors to negotiate with First National and Emergent (together, the *PeterStar Buyers*) for the sale of the Company s interest in PeterStar for a cash purchase price of no less than $212 million.

On February 15, 2005, the Company announced that it reached a tentative agreement with the PeterStar Buyers, subject to agreement on final documentation and approval by the Company s Board of Directors, for a sale of the Company s entire interest in PeterStar for a purchase price of $212 million.

From February 15 through 17, 2005, senior management and the Company s legal and financial advisors engaged in discussions with other third parties who previously indicated an interest in pursuing a Potential Transaction in order to gauge their interest in acquiring the Company and/or certain of its assets at prices the Board would find acceptable. In connection with the foregoing, senior management and the Company s legal and financial advisors had numerous discussions with, and provided due diligence information and a draft transaction agreement to, a potential buyer of the Company s interest in PeterStar who had previously submitted a proposal to the Special Committee in September 2004 and was one of the parties that contacted the Company just prior to the expiration of the 2004 Group s exclusivity period. However, the discussions with such third parties and the potential buyer of the Company s interest in PeterStar did not result in the submission of any new or revised proposals. During this time period, senior management and the Company s legal and financial advisors continued to negotiate for the sale of the Company s interest in PeterStar to the PeterStar Buyers, including finalizing a share purchase agreement and certain ancillary agreements necessary to consummate the sale.

On February 17, 2005, senior management and the Company s legal advisors met with representatives of the PeterStar Buyers and their legal advisors to negotiate and finalize the terms of the share purchase agreement and certain ancillary agreements. As part of these negotiations, the PeterStar Buyers agreed to increase the purchase price for PeterStar from $212 million to $215 million.

In the evening on February 17, 2005, at a special meeting of the Board, senior management and the Company s legal and financial advisors provided the Board with an overview of their discussions with third parties over the course of the prior few days with respect to a Potential Transaction, and with the PeterStar Buyers with respect to a sale of the Company s interest in PeterStar. Evercore presented the Board with its financial analysis of the sale of PeterStar to the PeterStar Buyers and rendered it