

# MARTHA STEWART LIVING OMNIMEDIA INC (MSO)

## 10-K

Annual report pursuant to section 13 and 15(d)

Filed on 03/15/2011

Filed Period 12/31/2010



THOMSON REUTERS

Westlaw<sup>®</sup> BUSINESS

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-15395

**MARTHA STEWART LIVING OMNIMEDIA, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)  
601 West 26th Street, New York, New York  
(Address of Principal Executive Offices)

52-2187059  
(I.R.S. Employer  
Identification No.)  
10001  
(Zip Code)

Registrant's telephone number, including area code: (212) 827-8000

Securities Registered Pursuant to Section 12(b) of the Act:

| Title of Each Class                              | Name of Each Exchange on Which Registered |
|--|---|
| Class A Common Stock, Par Value \$0.01 Per Share | New York Stock Exchange                   |

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the number of shares outstanding and using the price at which the stock was last sold on June 30, 2010, was \$130,482,564.\*

\*Excludes 1,745,612 shares of our Class A Common Stock, and 26,690,125 shares of our Class B Common Stock, held by directors, officers and 10% stockholders, as of June 30, 2010. Exclusion of shares held by any person should not be construed to indicate that such person possesses the power, direct or indirect, to direct or cause the direction of the management or policies of the Company, or that such person controls, is controlled by or under common control with the Company.

**Number of Shares Outstanding As of March 10, 2011**

**29,014,627 shares of Class A Common Stock**

**26,067,961 shares of Class B Common Stock**

**Documents Incorporated by Reference.**

Portions of Martha Stewart Living Omnimedia, Inc.'s Proxy Statement for  
Its 2011 Annual Meeting of Stockholders are Incorporated  
by Reference into Part III of This Report.

---

[Table of Contents](#)

**TABLE OF CONTENTS**

|   |    |
|---|----|
| <b><a href="#">PART I</a></b>   |    |
| <b><a href="#">Item 1. Business</a></b>   | 2  |
| <a href="#">Overview</a>  | 2  |
| <a href="#">History</a>   | 2  |
| <a href="#">Publishing</a>  | 3  |
| <a href="#">Broadcasting</a>  | 6  |
| <a href="#">Merchandising</a>   | 8  |
| <a href="#">Intellectual Property</a>   | 10 |
| <a href="#">Available Information</a>   | 11 |
| <b><a href="#">Item 1A. Risk Factors</a></b>  | 11 |
| <b><a href="#">Item 1B. Unresolved Staff Comments</a></b>   | 18 |
| <b><a href="#">Item 2. Properties</a></b>   | 19 |
| <b><a href="#">Item 3. Legal Proceedings</a></b>  | 19 |
| <b><a href="#">Item 4. [Removed and reserved]</a></b>   | 19 |
| <b><a href="#">PART II</a></b>  |    |
| <b><a href="#">Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</a></b> | 20 |
| <b><a href="#">Item 6. Selected Financial Data</a></b>  | 22 |
| <b><a href="#">Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations</a></b>                        | 23 |
| <b><a href="#">Item 7A. Quantitative and Qualitative Disclosure About Market Risk</a></b>   | 41 |
| <b><a href="#">Item 8. Financial Statements and Supplementary Data</a></b>  | 41 |
| <b><a href="#">Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</a></b>                         | 42 |
| <b><a href="#">Item 9A. Controls and Procedures</a></b>   | 42 |
| <b><a href="#">Item 9B. Other Information</a></b>   | 44 |
| <b><a href="#">PART III</a></b>   |    |
| <b><a href="#">Item 10. Directors, Executive Officers and Corporate Governance</a></b>  | 45 |
| <b><a href="#">Item 11. Executive Compensation</a></b>  | 45 |
| <b><a href="#">Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</a></b>              | 45 |
| <b><a href="#">Item 13. Certain Relationships and Related Transactions, and Director Independence</a></b>                                   | 46 |
| <b><a href="#">Item 14. Principal Accountant Fees and Services</a></b>  | 46 |
| <b><a href="#">PART IV</a></b>  |    |
| <b><a href="#">Item 15. Exhibits and Financial Statement Schedules</a></b>  | 47 |
| <a href="#">Signatures</a>  | 52 |

---

**Table of Contents**

|   |            |
|---|------------|
| <b><u>Index to Consolidated Financial Statements, Financial Statement Schedules and Other Financial Information</u></b>                   | <b>F-1</b> |
| <b><u>Report of Independent Registered Public Accounting Firm</u></b>   | F-2        |
| <b><u>Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008</u></b>                                  | F-3        |
| <b><u>Consolidated Balance Sheets at December 31, 2010 and 2009</u></b>   | F-4        |
| <b><u>Consolidated Statements of Shareholders' Equity and Comprehensive Loss for the years ended December 31, 2010, 2009 and 2008</u></b> | F-5        |
| <b><u>Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008</u></b>                                  | F-6        |
| <b><u>Notes to Consolidated Financial Statements</u></b>  | F-7        |
| <b><u>Financial Statement Schedule: II — Valuation and Qualifying Accounts for the years ended December 31, 2010, 2009 and 2008</u></b>   | F-32       |
| <b><u>Exhibit Index</u></b>   |            |

---

## [Table of Contents](#)

In this Annual Report on Form 10-K, the terms "we," "us," "our," "MSO" and the "Company" refer to Martha Stewart Living Omnimedia, Inc. and, unless the context requires otherwise, Martha Stewart Living Omnimedia LLC ("MSLO LLC"), the legal entity that, prior to October 22, 1999, operated many of the businesses we now operate, and their respective subsidiaries.

### **FORWARD-LOOKING STATEMENTS**

All statements in this Annual Report on Form 10-K, except to the extent describing historical facts, are "forward-looking statements," as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements represent our current beliefs regarding future events, many of which, by their nature, are inherently uncertain and outside of our control. These statements often can be identified by terminology such as "may," "will," "should," "could," "expects," "intends," "plans," "anticipates," "believes," "estimates," "potential" or "continue" or the negative of these terms or other comparable terminology. Our actual results may differ materially from those projected in these statements, and factors that could cause such differences include those factors discussed in "Risk Factors" in Item 1A of this Annual Report on Form 10-K and those discussed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, as well as other factors. Forward-looking statements herein speak only as of the date of filing of this Annual Report on Form 10-K. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in the reports we file with the Securities and Exchange Commission (the "SEC").

## PART I

### Item 1. *Business.*

#### OVERVIEW

We are an integrated media and merchandising company providing consumers with inspiring lifestyle content and well-designed, high-quality products. We are organized into three business segments with Publishing and Broadcasting representing our media segments that are complemented by our Merchandising segment, a combination that enables us to cross-promote our content and products.

Our growth strategy is three-pronged:

- Strengthen and expand our media business by building new brands, exploring new distribution opportunities for our assets, and further capitalizing on our ability to offer cross-platform programs to advertisers
- Grow our merchandising business by leveraging our brand equity to expand established businesses and by diversifying into new categories and distribution channels; and
- Expand internationally

The media and merchandise we create generally encompass the following core areas:

- Cooking and Entertaining (recipes, techniques, and indoor and outdoor entertaining)
- Holidays (celebrating special days and special occasions)
- Crafts (how-to projects)
- Home (decorating, collecting and renovating)
- Whole Living (healthy living and sustainable practices)
- Weddings (all aspects of planning, celebrating and commemorating a wedding)
- Organizing (homekeeping, clotheskeeping, restoring and other types of domestic maintenance)
- Gardening (planting, landscape design and outdoor living)
- Pets (grooming, apparel, feeding and health)

As of March 1, 2011, we had approximately 615 employees. Our revenues from foreign sources were \$6.5 million, \$10.8 million and \$13.4 million in 2010, 2009 and 2008, respectively, which were largely comprised of international sales of television content. In the future, we plan to grow international revenues from other areas of our business. Substantially all of our assets are located within the United States.

#### HISTORY

Martha Stewart published her first book, *Entertaining*, in 1982. Over the next eight years she became a well-known authority on the domestic arts, authoring eight more books on a variety of our core content areas. In 1990, Time Publishing Ventures, Inc. ("TPV"), a subsidiary of Time Inc., launched *Martha Stewart Living* magazine with Ms. Stewart serving as its editor-in-chief. In 1993, TPV began producing a weekly television program, *Living*, hosted by Ms. Stewart. In 1995, TPV launched a mail-order catalog, *Martha by Mail*, which made available products featured in, or developed in connection with, the magazine and television program. In late 1996 and early 1997, a series of transactions occurred resulting in MSLO LLC acquiring substantially all Martha Stewart-related businesses. Ms. Stewart was the majority owner of MSLO LLC; TPV retained a small equity interest in the business. On October 22, 1999, MSLO LLC merged into MSO, then a wholly owned subsidiary of MSLO LLC. Immediately following the merger, we consummated an initial public offering.

---

## [Table of Contents](#)

### **BUSINESS SEGMENTS**

Our three business segments are described below. Additional financial information relating to these segments may be found in Note 16, *Business Segments*, in the Notes to Consolidated Financial Statements.

### **PUBLISHING**

In 2010, we announced our plan to report a "new" Publishing segment which encompasses our print and digital distribution platforms that were previously reported in our Publishing and Internet segments. We have been continuing to execute our strategy to leverage our core content across our print and digital platforms more efficiently by further centralizing the creative process. In addition, during the fourth quarter of 2010, we reorganized our advertising sales force to centralize selling efforts across all media. As a result of these fundamental changes in the way we view our business, we evaluated our operating segments and determined that the print and digital platforms no longer met the definition of separate operating segments in accordance with Accounting Standards Codification 280, *Segment Reporting*. The new Publishing operating segment provides management with a more meaningful assessment of the operating performance of our print and digital platforms. All discussions of the Publishing operating segment, as well as Publishing segment financial information contained in Note 16, *Business Segments*, in the Notes to Consolidated Financial Statements, have been restated to reflect the results of the new Publishing operating segment.

In 2010, our Publishing segment accounted for 63% of our total revenues, consisting of operations related to magazine and book publishing and digital distribution, principally through our website, *marthastewart.com*. Revenues from magazine and digital advertising represented approximately 66% of the segment's revenues in 2010, while circulation revenues represented approximately 32% of the segment's revenues.

#### ***Magazines***

*Martha Stewart Living*. Our flagship magazine, *Martha Stewart Living*, is the foundation of our publishing business. Launched in 1990 as a quarterly publication with a circulation of 250,000, we currently publish *Martha Stewart Living* on a monthly basis with a rate base of 2.05 million, effective with the January 2011 issue. The magazine appeals primarily to the college-educated woman between the ages of 25 and 54 who owns her principal residence. *Martha Stewart Living* offers lifestyle ideas and original how-to information in a highly visual, upscale editorial environment. The magazine has won numerous prestigious industry awards and generates a majority of our magazine revenues, primarily from advertising revenue.

*Martha Stewart Weddings*. We launched *Martha Stewart Weddings* in 1994, originally as an annual publication. In 1997, it went to semi-annual publication and became a quarterly in 1999. *Martha Stewart Weddings* targets the upscale bride and serves as an important vehicle for introducing young women to our brands. *Martha Stewart Weddings* is distributed primarily through newsstands. In addition to quarterly publications, we have issued special publications including, most recently, *Martha Stewart Weddings – Destination Weddings and Dream Honeymoons*, which was on sale in the fourth quarter of 2010.

*Everyday Food*. We launched *Everyday Food* in September 2003 after publishing four test issues. This digest-sized magazine featuring quick, easy recipes was created for the supermarket shopper and the everyday cook. *Everyday Food* targets women ages 25 to 49 and is intended to broaden our consumer audience while developing a new brand and diversifying our revenue.

*Whole Living*. In August 2004, we acquired certain assets and liabilities of *Body + Soul* magazine and *Dr. Andrew Weil's Self Healing* newsletter ("Body & Soul Group"), publications featuring "natural living" content. In 2010, we discontinued our relationship with Dr. Andrew Weil and no longer publish *Dr. Andrew Weil's Self Healing* newsletter or any Dr. Weil special interest publications. Effective with the June 2010 issue, we changed the name of *Body + Soul/Whole Living* magazine to *Whole Living* in an attempt to more effectively

---

## [Table of Contents](#)

integrate with our corresponding website, *wholeliving.com*, and to broaden the editorial coverage of the magazine, which we believe may provide opportunities to increase consumer and advertising demand.

### *Magazine Summary*

Certain information related to our subscription magazines is as follows:

| <u>Title</u>                   | <u>2009</u><br><u>Rate Base *</u> | <u>2010</u><br><u>Rate Base *</u> | <u>2011</u><br><u>Rate Base *</u> | <u>Frequency</u> |
|--------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|------------------|
| <i>Martha Stewart Living</i>   | 2,025,000                         | 2,025,000                         | 2,050,000                         | 12               |
| <i>Martha Stewart Weddings</i> | N/A***                            | N/A***                            | N/A***                            | 5**              |
| <i>Everyday Food</i>           | 1,000,000                         | 1,000,000                         | 1,025,000                         | 10               |
| <i>Whole Living</i>            | 600,000                           | 650,000                           | 700,000                           | 10               |

\* Rate base increases are effective with the January issues which typically are on sale in December of the prior fiscal year.

\*\* Includes one special issue of *Martha Stewart Weddings*

\*\*\* Does not have a stated rate base.

*Special Interest Publications.* In addition to our periodic magazines, we occasionally publish special interest magazine editions. Our special interest publications provide in-depth advice and ideas around a particular topic in one of our core content areas, allowing us to leverage our distribution network to generate additional revenues. Our special interest publications are sold at newsstands and may include advertising. In 2010, we published the *Martha Stewart Living Halloween Special* and the *Martha Stewart Holiday Special*.

*Magazine Production, Distribution and Fulfillment.* We print most of our domestic magazines under agreements with R. R. Donnelly and currently purchase paper through an agreement with Time Inc. As paper prices decreased in 2009 and 2010 because of lower market demand, the paper mills consolidated operations in response to the declining paper demand. We expect paper pricing to increase in 2011 due to the consolidation of the paper mills along with increased costs of raw materials, energy and fuel. We also expect our costs for magazine distribution to be higher in 2011 due to higher fuel costs. We use no other significant raw materials in our businesses. Newsstand distribution of the magazines is handled by Time Warner Retail Sales and Marketing ("TWRSM"), an affiliate of Time Inc., under an agreement that expires in June 2014. Subscription fulfillment services for our magazines are provided by Time Customer Service, another affiliate of Time Inc., under an agreement that expires in June 2014.

### **Books**

In the second quarter of 2007, we announced a multi-year agreement with Clarkson Potter/Publishers to publish 10 Martha Stewart branded books. Subsequent amendments ultimately increased the number of books to be delivered to 17, of which 14 have been delivered and accepted through December 31, 2010. We are currently in negotiations for a new multi-year, multi-book agreement and expect to continue providing Martha Stewart branded books in the future. In 2010, three books were published under this agreement — *Everyday Food—Fresh Flavors Fast*, *Martha Stewart's Encyclopedia of Sewing & Fabric Crafts* and *Power Foods*.

In August 2008, we announced a multi-year agreement with Harper Studio to publish 10 Emeril Lagasse branded books, of which 4 have been delivered and accepted through December 31, 2010. One book, *Farm to Fork: Cooking Local, Cooking Fresh*, was published under this agreement in 2010.

Through our efforts in the books business and the rights we acquired related to Emeril's book backlist, we now have a library of approximately 80 books.

---

## [Table of Contents](#)

### **Digital Properties**

#### *marthastewart.com*

The *marthastewart.com* website is the flagship address of our digital properties, offering a vast quantity of continually updated articles and recipes developed from several Martha Stewart brands, including our magazine properties. Since the website's relaunch in 2007 as a content-focused, advertising-driven media website, *marthastewart.com* has received many industry awards. The website provides engaging experiences in several lifestyle categories: food, entertaining, holidays, home and garden, crafts and pets. The website also serves as a gateway to our other properties, including *wholeliving.com* and *marthastewartweddings.com*. In 2010, we invested in a replatforming of our website that will allow for additional functionality in 2011 and beyond. The enhancements to the website are expected to improve user engagement and expand our advertising inventory which, together, is expected to drive growth in our audience and revenues.

#### *marthastewartweddings.com*

In 2008, we launched *marthastewartweddings.com* to guide brides-to-be through the planning and designing of their weddings, with a strong emphasis on identifying and developing each bride's personalized wedding style.

#### *wholeliving.com*

In 2008, we also launched *wholeliving.com*, a website designed to help women achieve their goals for living better lives, with a focus on wellness and beauty, healthy recipes, green living, fitness, and personal happiness. In 2010, in conjunction with the change in title of the magazine *Body + Soul/Whole Living* to *Whole Living*, unique visitors to *wholeliving.com* doubled due to improvements in branding, product and programming and due to an increase in popularity of this lifestyle category overall.

#### *WeddingWire*

In the first quarter of 2008, we entered into a series of transactions with WeddingWire to acquire approximately 43% of the equity in WeddingWire, a localized wedding platform that combines an online marketplace with planning tools and a social community. The addition of WeddingWire's planning tool set to our site expands our wedding's franchise and further builds our interactive community by adapting WeddingWire's technology for other digital content areas.

#### *pingg*

In the fourth quarter of 2008, we entered into an agreement with pingg to acquire approximately 21% of the equity in pingg, an online invitation and event management site. Some of the most popular searches on *marthastewart.com* relate to entertaining, including baby and bridal showers, birthday parties and graduation parties. Visitors to the pingg site can conveniently create online invitations for their events by incorporating the beautiful imagery and photography for which the Martha Stewart brand is known.

#### *Ziplist*

In May 2009, we entered into an agreement with Ziplist to acquire a minority equity stake of approximately 10% of the equity in Ziplist, a company which provided us with the technology to power our *Martha's Everyday Food App* for the iPhone and iPod touch. This application became available in the first quarter of 2010. Ziplist is a customizable, multiplatform digital grocery planning and shopping list service. Ziplist allows our customers to add any recipe's ingredients to their grocery lists with one click and those lists can then be synced and shared online.

---

## [Table of Contents](#)

### *Apps*

In 2010, we developed two digital apps that were available for purchase through Apple iTunes. One app was a digital magazine specifically designed for the Apple iPad subtitled "Boundless Beauty" which coincided with the 20<sup>th</sup> anniversary of the *Martha Stewart Living* magazine. The other app that launched in 2010 was our Cookie app for the iPad that included over 50 recipes, as well as built-in timers, grocery lists, videos and innovative search and organizing options.

### *Competition*

Publishing is a highly competitive business. Our magazines, books and digital apps compete not only with other magazines, books and digital apps, but also with other mass media, websites and many other types of leisure-time activities. Competition for advertising dollars in magazine operations is primarily based on advertising rates, as well as editorial and aesthetic quality, the desirability of the magazine's demographic, reader response to advertisers' products and services and the effectiveness of the advertising sales staff. *Martha Stewart Living* competes for readers and advertising dollars with women's service, decorating, cooking and lifestyle magazines and websites. *Everyday Food* competes for readers and advertising dollars with women's service and cooking magazines and websites. *Martha Stewart Weddings* competes for readers and advertising dollars primarily with wedding service magazines and websites. *Whole Living* competes for readers and advertising dollars primarily with women's lifestyle, health, fitness, and natural living magazines and websites. Our special interest publications can compete with a variety of magazines depending on the focus of the particular issue. Capturing advertising sales for our digital properties is highly competitive as well. *marthastewart.com* competes with other how-to, food and lifestyle websites. Our challenge is to attract and retain users through an easy-to-use and content-relevant website. Competition for advertising rates is based on the number of unique users we attract each month, the demographic profile of that audience and the number of pages they view on our site.

### *Seasonality*

Our Publishing segment can experience fluctuations in quarterly performance due to variations in the publication schedule from year to year, timing of direct mail expenses, delivery and acceptance of books under our long-term book contracts and variability of audience and traffic on *marthastewart.com*, as well as other seasonal factors. Not all of our magazines are published on a regularly scheduled basis throughout the year. For example, *Martha Stewart Weddings* was published five times in 2009: two issues in the second quarter and three issues in the fourth quarter. In 2010, *Martha Stewart Weddings* was also published five times, but in different quarters from 2009: one issue in each of the first, second, and third quarters; and two issues in the fourth quarter. Additionally, the publication schedule for our special interest publications can vary and lead to quarterly fluctuations in the Publishing segment's results. Advertising revenue on *marthastewart.com* is typically highest in the fourth quarter of the year due to higher consumer demand in our holiday content areas, and corresponding higher advertiser demand to reach our audience demographic with their marketing messages.

## **BROADCASTING**

Our Broadcasting business segment accounted for 18% of our total revenues in 2010. The segment consists of operations relating to the production of television programming, the domestic and international distribution of our library of programming in existing and repurposed formats, revenue derived from the provision of talent services, and the operations of our satellite radio channel. We generally own the copyrights in the programs we produce for television and radio distribution.

*The Martha Stewart Show* launched in September 2005 as a syndicated daily lifestyle series hosted by Martha Stewart and it generates the majority of the Broadcasting segment's revenue. Filmed in front of a studio audience, the Emmy Award-winning show consists of several segments within each episode, featuring inspiring ideas and new projects from one or several of our core content areas. NBC Universal Domestic Television Distribution distributed the program domestically through season 5.

---

## [Table of Contents](#)

In 2010, we partnered with Hallmark Channel, a cable television network owned and operated by Crown Media Holdings, Inc., to exclusively televise original episodes of the *The Martha Stewart Show* that began with the launch of season 6 in September 2010. As part of the agreement, we also agreed to develop a range of new and original series and prime time specials, which now include *Mad Hungry with Lucinda Scala Quinn*, *Martha Bakes* and *Petkeeping with Marc Morrone*. We own the television content we produce for Hallmark Channel and we have the ability in the future to further monetize these assets. Similar to the agreement for syndicated distribution, revenues for *The Martha Stewart Show* on Hallmark Channel are mostly comprised of advertising, product integration and licensing revenues. Revenues for the companion programs on Hallmark Channel generally consist of licensing revenue.

In 2008, the "Whatever Girls," a popular duo on the *Martha Stewart Living Radio* channel on Sirius XM Radio, debuted a television show called *Whatever Martha!*, which includes original commentary on classic clips of *Living*, a show we previously produced that ceased airing in September 2004. The first two series of *Whatever Martha!* aired on the Fine Living cable channel and the third series is expected to air on Hallmark Channel.

From 2005 to 2010, *Everyday Food*, a half-hour original series inspired by the magazine of the same name, aired weekly on PBS stations nationwide. Unlike revenues for *The Martha Stewart Show*, revenues for the *Everyday Food* series were provided by underwriters.

Emeril Lagasse provides various television services for us as part of our Broadcasting segment growth strategy. During 2008, we entered into an agreement with Discovery Talent Services LLC pursuant to which Emeril Lagasse provides talent services for the television series *Emeril Green* that airs daily on Discovery's Planet Green channel. In 2010, Emeril Lagasse hosted several new shows including a new, hour-long television series, *The Emeril Lagasse Show*, which was broadcast on ION Television. *Fresh Food Fast*, hosted by Emeril Lagasse on TVFN's new Cooking Channel, also began airing in 2010. This half-hour show features Chef Emeril Lagasse as he focuses on local produce and quick meals. In 2011, Emeril Lagasse is expected to host a new primetime show on the Cooking Channel, as well as a new cooking series that will be aired on Hallmark Channel.

In November 2009, we renewed our agreement with Sirius XM Radio for an additional two years. The *Martha Stewart Living Radio* channel launched on Sirius Satellite Radio, now known as Sirius XM Radio, in November 2005 providing programming 24 hours a day, seven days a week, of which 65 hours each week is original programming created by our experts.

### **Competition**

Broadcasting is a highly competitive business. Overall competitive factors in this segment include programming content, quality and distribution as well as the demographic appeal of the programming. Competition for television and radio advertising dollars is based primarily on advertising rates, audience size and demographic composition, viewer response to advertisers' products and services and effectiveness of the advertising sales staff. Our television programs compete directly for viewers, distribution and/or advertising dollars with other lifestyle and how-to television programs, as well as with general programming on other television stations and all other competing forms of media. Our radio programs compete for listeners with similarly themed programming on both satellite and terrestrial radio.

### **Seasonality**

Our Broadcasting segment can experience fluctuations in quarterly performance due to, among other things, seasonal advertising patterns, seasonal influences on people's viewing habits and audience increases for our programming during holiday seasons. Because television seasons run 12 months beginning and ending in the middle of September, the 2010 results include a large portion of season 5 of *The Martha Stewart Show* which aired in syndication and the first 16 weeks of season 6 of *The Martha Stewart Show*, which now airs on cable. While repeat episodes air over the summer, original episodes typically run September to May and generally command higher ratings and revenues.

---

## [Table of Contents](#)

### **MERCHANDISING**

Our Merchandising segment contributed 19% of our total revenues in 2010. The segment consists of operations related to the design of merchandise and related packaging, promotional and advertising materials, and the licensing of various proprietary trademarks, in connection with retail programs conducted through a number of retailers and manufacturers. Pursuant to agreements with our retail and manufacturing partners, we are typically responsible for the design of all merchandise and/or related packaging, signage, advertising and promotional materials. Our retail partners source the products through a manufacturer base and are mostly responsible for the promotion of the product. Our manufacturing partners source and/or produce the branded products together with other lines they make or sell. Our licensing agreements do not require us to maintain any inventory nor incur any meaningful expenses other than employee compensation. We own all trademarks for each of our branded merchandising programs and generally retain all intellectual property rights related to the designs of the merchandise, packaging, signage and collateral materials developed for the various programs.

#### ***Select Licensed Retail Partnerships***

##### *Martha Stewart Living at The Home Depot*

In 2010, we launched the *Martha Stewart Living* program at The Home Depot, which is currently available at all of The Home Depot's 1,976 stores in the United States and all of the 179 The Home Depot stores in Canada, as well as on homedepot.com and Home Decorators Collection catalog business. The *Martha Stewart Living* program at The Home Depot encompasses a broad range of home décor, seasonal and outdoor living products, including paint, storage and organization, outdoor furniture, garden seeds, wall-to-wall carpet, indoor and outdoor area rugs, drapery and drapery hardware, cabinetry, countertops, and seasonal holiday decor.

##### *Martha Stewart Collection at Macy's*

In September 2007, we introduced the *Martha Stewart Collection* exclusively at Macy's. It is currently available at the nearly 650 Macy's stores in the United States that offer home products, as well as macys.com. The *Martha Stewart Collection* line encompasses a broad range of home goods, including bed and bath décor and textiles, housewares, food preparation and other kitchen items, tabletop, holiday decorating and trim-a-tree items.

##### *Sandals® Weddings by Martha Stewart*

In October 2009, we launched the *Sandals® Weddings by Martha Stewart* partnership with Sandals Resorts International. The exclusive line of Martha Stewart themed destination weddings is available at any of the 17 Luxury Included® Sandals Resorts and Beaches Resorts across the Caribbean.

##### *Martha Stewart Flowers with 1-800-Flowers*

In the second quarter of 2010, we announced the early termination of our agreement with 1-800-Flowers.com, our co-branded floral, plant and gift baskets program.

##### *Martha Stewart Everyday at Kmart and Sears Canada*

In the United States, we had an exclusive license agreement with Kmart Corporation in the mass-market channel that began in 1997 and ended in January 2010 and which provided for annual minimum royalties. In 2010, Kmart represented only 1% of total Company revenues, but represented approximately 10% of total Company revenues in each of 2008 and 2009. Kmart's contribution to both total Merchandising revenues and total Company revenues decreased materially from 2007 through 2010 mostly as the result of a decrease in the annual minimum royalties due from Kmart and the continued diversification of our business. In Canada, we had an exclusive license agreement with Sears Canada for *Martha Stewart Everyday* from September 2003 to August 2008.

---

## [Table of Contents](#)

### **Select Licensed Martha Stewart Manufacturing Partnerships**

#### *Martha Stewart Crafts*

In May 2007, we launched *Martha Stewart Crafts*, a paper-based crafting program with our manufacturing partner, Wilton Properties Inc. (formerly UCG Paper Crafts Properties Inc. and EK Success, LTD), at Michael's stores in the United States. The program consists of tools, embellishments, paper/albums, and other seasonal products. Distribution for this program has expanded to include multiple specialty and independent craft chains in the United States and internationally.

In July, 2010 we expanded our *Martha Stewart Crafts* offerings by partnering with Provo Craft to launch the Cricut Cake® Martha Stewart Crafts Edition product, a cake decorating machine and electronic cutter that precisely cuts gum paste, frosting sheets, and more.

In 2011, we will be further expanding our *Martha Stewart Crafts* portfolio by introducing a line of craft paints with Plaid and a line of yarns and looms with Lion Brand.

#### *Martha Stewart Pets with Age Group*

In July 2010, we launched the *Martha Stewart Pets* line developed in partnership with Age Group Ltd and sold currently at Petsmart stores. The program consists of wide range of pet accessories, including apparel, collars, leashes, bedding, grooming supplies, toys and more.

#### *KB Home / Martha Stewart Homes*

We have had a partnership with KB Home for the development of *Martha Stewart Homes* since 2005 and have recently extended the term of our agreement. The KB Home communities created with Martha Stewart feature homes with unique exterior and interior details that are inspired by Martha Stewart's own homes. The *Martha Stewart Homes* are currently available at multiple communities in California, Colorado, North Carolina and Florida. We also offer a range of design options, featured exclusively at KB Home Studios nationwide.

### **Select Licensed Emeril Lagasse Manufacturing Partnerships**

We acquired certain licensing agreements in connection with our April 2008 acquisition of specific Emeril Lagasse assets and have entered into new licensing agreements following the acquisition. These licensing agreements are primarily associated with partnerships with various food and kitchen preparation manufacturers that produce products under the Emeril Lagasse brand.

#### *Emerilware by All-Clad*

Introduced in August 2000, *Emerilware* by All-Clad consists of lines of high-quality, gourmet cookware and barbecue tools available at department stores and specialty retail outlets across the United States, as well as through the Home Shopping Network.

#### *Emerilware by T-Fal*

Launched in November 2006, *Emerilware* by T-FAL is a line of small kitchen appliances available at department stores and specialty retail outlets across the United States, as well as through the Home Shopping Network.

#### *Emeril's Original with B&G Foods*

In September 2000, Emeril Lagasse introduced with B&G Foods, *Emeril's Original*, a signature line of seasonings, salad dressings, basting sauces and marinades, mustards, salsas, pasta sauces, pepper sauces, spice rubs, cooking sprays and stocks available at supermarkets and specialty markets across the United States, as well as through the Home Shopping Network.

---

## [Table of Contents](#)

### *Emeril's Gourmet Coffee with Timothy's World Coffee*

Launched in September 2007, *Emeril's Gourmet Coffee with Timothy's World Coffee* is a single-cup coffee program comprised of flavored coffees inspired by Emeril Lagasse. The program is available in department and specialty stores nationwide, as well as certain national hotel chains.

### *Other Emeril Manufacturing Partnerships*

In 2010, we introduced a variety of new partnerships, including *Emerilware Cutlery with Lehrhoff ABL Inc. Cutlery*, which is a branded cutlery collection that includes knives and cutting boards. The line, which was launched on the Home Shopping Network in November 2010, is expected to be available in 2011 at select department stores and specialty stores across the United States. We also introduced *Emeril's Red Marble Steaks with Allen Brothers* which is a line of hand-selected, aged steaks. The line, launched in the spring of 2010, is available through catalog, online and the Home Shopping Network. In addition, we announced a partnership with Viking Culinary Group, which will introduce a line of Gas and Charcoal Grills under the Emeril brand. This line is expected to launch in the spring of 2011 at specialty retailers across the United States and the Home Shopping Network.

### *Competition*

The retail business is highly competitive and the principal competition for all of our merchandising lines consists of mass-market and department stores that compete with the mass-market, home improvement and department stores in which our Merchandising segment products are sold, including Bed Bath & Beyond, BJ's, JC Penney, Kmart, Kohl's, Lowe's, Sam's Club, Target and Wal-Mart. Our merchandising lines also compete within the mass-market, home improvement and department stores that carry our product lines with other products offered by these stores in the respective product categories. Competitive factors include numbers and locations of stores, brand awareness and price. We also compete with the internet businesses of these stores and other websites that sell similar retail goods.

### *Seasonality*

Revenues from the Merchandising segment can vary significantly from quarter to quarter due to new product launches and the seasonality of many product lines. In addition, prior to 2010, we historically recognized a substantial portion of the revenue resulting from the difference between the minimum royalty amount under the Kmart contract and royalties paid on actual sales in the fourth quarter of each year, when the amount could be determined. Our Kmart agreement ended in January 2010.

## **INTELLECTUAL PROPERTY**

We use multiple trademarks to distinguish our various publications and brands, including *Martha Stewart Living* (the name of our flagship publication as well as the trademark for products sold at Home Depot), *Martha Stewart Collection* (for goods sold Macy's), *Martha Stewart Crafts*, *Martha Stewart Weddings*, *Everyday Food*, *Whole Living*, *Mad Hungry*, *Emeril* and *Emerils*. These and numerous other trademarks are the subject of registrations and pending applications filed by us for use with a variety of products and other content, both domestically and internationally, and we continue to expand our worldwide usage and registration of related trademarks. We also register, both offensively and defensively, key domain names containing our trademarks, such as [www.marthastewart.com](http://www.marthastewart.com), [www.marthastewartweddings.com](http://www.marthastewartweddings.com), [wholeliving.com](http://wholeliving.com), [www.emerils.com](http://www.emerils.com) and [www.everydayfood.com](http://www.everydayfood.com).

We regularly file copyrights regarding our proprietary designs and editorial content on a regular basis. We have also applied for, and in some instances are now the owners of, domestic and international design and utility patents covering certain of our *Martha Stewart Crafts* paper punches.

---

## [Table of Contents](#)

We regard our rights in and to our trademarks, our proprietary designs and editorial content as valuable assets in the marketing of our products and we vigorously police and protect our trademarks against infringement and denigration by third parties. We also work with our licensees to assure that our trademarks are used properly. We own and license the rights to many of these marks pursuant to an agreement between us and Ms. Stewart, the description of which is incorporated by reference into Item 13 of this Annual Report on Form 10-K.

### AVAILABLE INFORMATION

Our website can be found on the Internet at [www.marthastewart.com](http://www.marthastewart.com). Our proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any amendments to these documents, as well as certain other forms we file with or furnish to the SEC, can be viewed and downloaded free of charge as soon as reasonably practicable after they have been filed with the SEC by accessing [www.marthastewart.com](http://www.marthastewart.com) and clicking on Investor Relations and SEC Filings. Please note that information on, or that can be accessed through, our website is not deemed "filed" with the SEC and is not incorporated by reference into any of our filings under the Securities Act of 1933, as amended (the "Securities Act"), or the Securities Exchange Act of 1934, as amended (the "Exchange Act"), irrespective of any general incorporation language contained in such filing.

### Item 1A. Risk Factors

A wide range of factors could materially affect our performance. Like other companies, we are susceptible to macroeconomic changes that may affect the general economic climate and our performance, the performance of those with whom we do business, and the appetite of consumers for products and publications. Similarly, the price of our stock is impacted by general equity market conditions, the relative attractiveness of our market sector, differences in results of operations from estimates and projections, and other factors beyond our control. In addition to the factors affecting specific business operations identified in connection with the description of those operations and the financial results of those operations elsewhere in this report, the factors listed below could adversely affect our operations. Although the risk factors listed below are the risk factors that Company management considers significant, additional risk factors that are not presently known to Company management may also adversely affect our operations.

**Our success depends in part on the popularity of our brands and the reputation and popularity of Martha Stewart, our Founder, and Emeril Lagasse. Any adverse reactions to publicity relating to Ms. Stewart or Mr. Lagasse, or the loss of either of their services, could adversely affect our revenues, results of operations and our ability to maintain or generate a consumer base.**

While we believe there has been significant consumer acceptance for our products as stand-alone brands, the image, reputation, popularity and talent of Martha Stewart and Emeril Lagasse remain important factors.

Ms. Stewart's efforts, personality and leadership have been, and continue to be, critical to our success. While we have managed our business without her daily participation at times in the past, the repeated diminution or loss of her services due to disability, death or some other cause, or any repeated or sustained shifts in public or industry perceptions of her, would have a material adverse effect on our business.

In addition, in 2008 we acquired the assets relating to Emeril Lagasse's businesses other than his restaurants and foundation. The value of these assets is largely related to the ongoing popularity and participation of Mr. Lagasse in the activities related to exploiting these assets. Therefore, the continued value of these assets could be materially adversely affected if Mr. Lagasse were to lose popularity with the public or be unable to participate in our business, forcing us potentially to write-down a significant amount of the value we paid for these assets.

---

## [Table of Contents](#)

**Failure of the economy to sustain a recovery or difficulties in the financial markets could significantly impact our business, financial condition, results of operations and cash flows, and could adversely affect the value of our assets, hamper our ability to refinance our existing debt or our ability to raise additional funds.**

The economy experienced extreme disruption in the second half of 2008 and during 2009, including extreme volatility in securities prices, severely diminished liquidity and a drastic reduction in credit availability. These events led to increased unemployment, declines in consumer confidence and declines in personal income and consumer spending, particularly discretionary income and spending. This economic downturn also resulted in extraordinary and unprecedented uncertainty and instability for many companies, across all industries, and severely impacted many of the companies with which we do business. We cannot predict the future health and viability of the companies with which we do business and upon which we depend for royalty revenues, advertising dollars and credit.

Although economic conditions have stabilized and shown some indications of improvement, it is difficult to judge the scope and sustainability of any general economic recovery. This makes it difficult for us to forecast consumer and product demand trends and companies' willingness to spend money to advertise in our media properties. During the course of the recession, we experienced a decline in advertising revenues and a permanent reversal of that trend is not assured. An extended period of reduced cash flows could increase our need for credit at a time when such credit may not be available. Because of residual uncertainties regarding the economy, our operating results will be difficult to predict and prior results will not likely be indicative of results to be expected in future periods.

In addition, we have significant goodwill, intangible and other assets recorded on our balance sheet. We have already incurred impairment charges with respect to goodwill and certain intangible assets, and with respect to our investments. We will continue to evaluate the recoverability of the carrying amount of our goodwill, intangible and other assets on an ongoing basis, and we may in the future incur additional, and possibly substantial, impairment charges, which would adversely affect our financial results. Impairment assessment inherently involves the exercise of judgment in determining assumptions about expected future cash flows and the impact of market conditions on those assumptions. Although we believe the assumptions we have used in testing for impairment are reasonable, significant changes in any one of our assumptions could produce a significantly different result. Future events and changing market conditions may prove assumptions to be wrong with respect to prices, costs, holding periods or other factors. Differing results may amplify impairment charges in the future.

**Our Merchandising business and licensing programs may suffer if health and stability of the general economy does not show continued improvement and durability or if the housing market fails to stabilize.**

Our Merchandising business was hurt by the reduction in the availability of credit, downturn in the housing market, and other negative economic developments, including increased unemployment, that impacted the second half of 2008 and full year 2009. Each of these developments limited consumers' discretionary spending and affected their confidence. These and other adverse consumer trends led to reduced spending on general merchandise, homes and home improvement projects — categories in which we license our brands, resulting in weaker revenues from our licensed products. These trends affected the viability and financial health of companies with which we conduct business. While consumer spending and confidence have improved, consumer spending remains constrained. Unemployment remains and is expected to remain at high levels and the housing market remains weak and may in fact further deteriorate. If consumer confidence, consumer spending and the housing market do not rebound or companies with which we do business experience ongoing problems, our revenues may not grow.

---

## [Table of Contents](#)

**Our business is largely dependent on advertising revenues in our Publishing and Broadcasting segments. The market for advertising was adversely affected by the economic downturn. Our failure to attract or retain advertisers would have a material adverse effect on our business.**

We depend on advertising revenue in our Publishing and Broadcasting businesses. We cannot control how much or where companies choose to advertise. In the second half of 2008 and during 2009, we saw a significant downturn in advertising dollars generally in the marketplace, and more competition for the reduced dollars, which has hurt our publications and advertising revenues. Although this trend began to stabilize in the fourth quarter of 2009, our advertising revenues depend on the level of spending by advertisers, which is impacted by a number of factors beyond our control. If advertisers continue to spend less money, or if they advertise elsewhere in lieu of our magazines, websites or television and radio programming, our business and revenues will be materially adversely affected.

**Acquiring or developing additional brands or businesses, and integrating acquired assets, poses inherent financial and other risks and challenges.**

The process of consolidating and integrating acquired operations and assets takes a significant period of time, places a significant strain on resources and could prove to be more expensive and time consuming than we predicted. We may be required to increase expenditures to accelerate the integration process with the goal of achieving longer-term cost savings and improved profitability. We also may be required to manage multiple relationships with third parties as we expand our product offerings and brand portfolio. These developments may increase expenses if we hire additional personnel to manage our growth. These investments require significant time commitments from our senior management and place a strain on their ability to manage our existing businesses.

We continue to evaluate the acquisition of other businesses. These transactions involve challenges and risks in negotiation, execution, valuation, and integration. Moreover, competition for certain types of acquisitions is significant, particularly in the field of interactive media. Even if successfully negotiated, closed, and integrated, certain acquisitions may not advance our business strategy and may fall short of expected return on investment targets.

**We are expanding our merchandising and licensing programs into new areas and products, the failure of any of which could diminish the perceived value of our brand, impair our ability to grow and adversely affect our prospects.**

Our growth depends to a significant degree upon our ability to develop new or expand existing retail merchandising programs. We have entered into several new merchandising and licensing agreements in the past few years and have acquired new agreements through our acquisition of the Emeril Lagasse assets. Some of these agreements are exclusive and have a duration of many years. While we require that our licensees maintain the quality of our respective brands through specific contractual provisions, we cannot be certain that our licensees, or their manufacturers and distributors, will honor their contractual obligations or that they will not take other actions that will diminish the value of our brands. Furthermore, we cannot be certain that our licensees are not adversely impacted by general economic or market conditions, including continued weakness or further deterioration in the housing market and continued high levels of unemployment. If these companies experience financial hardship, they may be unwilling or unable to pay us royalties or continue selling our products, regardless of their contractual obligations.

There is also a risk that our extension into new business areas will meet with disapproval from consumers. We cannot guarantee that these programs will be fully implemented, or if implemented, that they will be successful. If the licensing or merchandising programs do not succeed, we may be prohibited from seeking different channels for our products due to the exclusive nature and multi-year terms of these agreements. Disputes with new or existing licensees may arise which could hinder our ability to grow or expand our product

---

## [Table of Contents](#)

lines. Disputes also could prevent or delay our ability to collect the licensing revenue that we expect in connection with these products. If such developments occur or our merchandising programs are otherwise not successful, the value and recognition of our brands, as well as our business, financial condition and prospects, could be materially adversely affected.

**If *The Martha Stewart Show* fails to maintain a sufficient audience, if adverse trends continue or develop in the television production business generally, or if Martha Stewart were to cease to be able to devote substantial time to our television business, that business could be adversely affected. We also derive value from Emeril Lagasse's television shows, the popularity of which cannot be assured.**

Our television production business is subject to a number of uncertainties. Our business and financial condition could be materially adversely affected by:

### *Failure of our television programming to maintain a sufficient audience*

Television production is a speculative business because revenues derived from television depend primarily upon the continued acceptance of that programming by the public, which is difficult to predict. Public acceptance of particular programming depends upon, among other things, the quality of that programming, the strength of the channel on which that programming is carried, promotion of that programming and the quality and acceptance of competing television programming and other sources of entertainment and information. *The Martha Stewart Show* television program has experienced a decline in ratings that reflects both the general decline in daytime cable television viewers discussed below and the transfer of the show from syndication to the Hallmark Channel. These developments have negatively impacted our television advertising revenues due to lower ratings as cable channels typically have smaller household universes of viewers from which to draw. *The Martha Stewart Show* is no longer available in broadcast-only homes, whose residents may have been a portion of the show's audience when it was in syndication. If ratings for the show were to further decline, it would adversely affect the advertising revenues we derive from television and could possibly make it economically inefficient to continue production of the show, in which case we would lose a significant marketing platform for us and our products, and we would have to write down our capitalized programming costs sooner. Additionally, a decline in ratings or cessation of *The Martha Stewart Show* would negatively impact our website, *marthastewart.com*, since the show is an important driver of audience to our website. The amount of any accelerated write down would vary depending on a number of factors, including when production ceased and the extent to which we continued to generate revenues from the use of our existing program library.

We are currently producing television shows featuring Emeril Lagasse. Emeril's failure to maintain or build popularity could negatively impact his marketing platform and his products, as well as the loss of anticipated revenue and profits from his television shows.

### *Adverse trends in the television business generally*

Television revenues may also be affected by a number of other factors, most of which are not within our control. These factors include a general decline in daytime television viewers, pricing pressure in the television advertising marketplace, the strength of the channel on which our programming is carried, general economic conditions, increases in production costs, availability of other forms of entertainment and leisure time activities and other factors. Any or all of these factors may quickly change, and these changes cannot be predicted with certainty. There has been a reduction in advertising dollars generally available and more competition for the reduced dollars across more media platforms. While we currently benefit from advertising revenues and the ability to sell product integrations on certain of our television programs, if adverse changes occur, we cannot be certain that we will continue to benefit from advertising revenues or able to sell product integrations or that our advertising rates can be maintained. Accordingly, if any of these adverse changes were to occur, the revenues we generate from television programming could decline.

---

## [Table of Contents](#)

**We have placed emphasis on building an advertising-revenue-based website, dependent on a large consumer audience and resulting page views. Failure to fulfill these undertakings could adversely affect our brand and business prospects.**

Our growth depends to a significant degree upon the continued development and growth of our digital properties. We have had failures with direct commerce in the past, and only limited experience in building an advertising-revenue-based website. When initial results from the relaunch of the *marthastewart.com* site in the second quarter of 2007 were below expectations, we made changes to the site and continue to enhance and upgrade the site including the recent 2010 initiative to replatform *marthastewart.com*. We cannot be certain that those changes will enable us to sustain growth for our website in the long term. In addition, the competition for advertising dollars has intensified. In order for our digital properties to succeed, we must, among other things maintain and continue to:

- significantly increase our online audience and advertising revenue;
- attract and retain a base of frequent visitors to our website;
- expand the content, products and interactive experiences we offer on our website;
- respond to competitive developments while maintaining a distinct brand identity;
- attract and retain talent for critical positions;
- form relationships with strategic partners to attract more consumers;
- develop and upgrade our technologies to support more efficient and effective migration of content from the print platform and provide a more robust user experience; and
- bring innovative product features to market in a timely manner.

We cannot be certain that we will be successful in achieving these and other necessary objectives. If we are not successful in achieving these objectives, our business, financial condition and prospects could be materially adversely affected.

**If we are unable to predict, respond to and influence trends in what the public finds appealing, our business will be adversely affected.**

Our continued success depends on our ability to provide creative, useful and attractive ideas, information, concepts, programming, content and products that strongly appeal to a large number of consumers, as well as distributing the content through the latest technology and traditional channels. In order to accomplish this, we must be able to respond quickly and effectively to changes in consumer tastes for ideas, information, concepts, programming, technology, content and products. The strength of our brands and our business units depends in part on our ability to influence tastes through broadcasting, print publication, digital distribution and merchandising. We cannot be sure that our new ideas and content will have the appeal and garner the acceptance that they have in the past, or that we will be able to respond quickly to changes in the tastes of homemakers and other consumers and their appetite for new technology.

**New product launches may reduce our earnings or generate losses.**

Our future success will depend in part on our ability to continue offering new products and services that successfully gain market acceptance by addressing the needs of our current and future customers. Our efforts to introduce new products or integrate acquired products may not be successful or profitable. The process of internally researching and developing, launching, gaining acceptance and establishing profitability for a new product, or assimilating and marketing an acquired product, is both risky and costly. New products generally incur initial operating losses. Costs related to the development of new products and services are generally expensed as incurred and, accordingly, our profitability from year to year may be adversely affected by the

---

## [Table of Contents](#)

number and timing of new product launches. For example, we had a cumulative loss of \$15.7 million in connection with *Blueprint*, which we ceased publishing in 2007. Other businesses and brands that we may develop also may prove not to be successful.

### **Our principal print business vendors are consolidating and this may adversely affect our business and operations.**

We rely on certain principal vendors in the print portion of our Publishing segment and their ability or willingness to sell goods and services to us at favorable prices and other terms. Many factors outside our control may harm these relationships and the ability and willingness of these vendors to sell these goods and services to us on favorable terms. Our principal vendors include paper suppliers, printers, subscription fulfillment houses and national newsstand wholesalers, distributors and retailers. Each of these industries in recent years has experienced consolidation among its principal participants. Further consolidation may result in decreased competition, which may lead to greater dependence on certain vendors and increased prices; as well as interruptions and delays in services provided by such vendors, all of which could adversely affect our results of operations.

### **We may be adversely affected by fluctuations in paper, postage and distribution costs.**

In our Publishing segment, our principal raw material is paper for the print portion of that business. Paper prices have fluctuated over the past several years. We generally purchase paper from major paper suppliers who adjust the price periodically. We have not entered, and do not currently plan to enter, into long-term forward price or option contracts for paper. Accordingly, significant increases in paper prices would adversely affect our future results of operations.

Postage for magazine distribution is also one of our significant expenses. We primarily use the U.S. Postal Service to distribute magazine subscriptions. In recent years, postage rates have increased, and a significant further increase in postage prices could adversely affect our future results of operations. We may not be able to recover, in whole or in part, paper or postage cost increases.

Distribution of magazines to newsstands and bookstores is conducted primarily through companies known as wholesalers. Wholesalers have in the past advised us that they intended to increase the price of their services. We have not experienced any material increase to date; however, some wholesalers have experienced credit and going concern risks. It is possible that other wholesalers likewise may seek to increase the price of their services or discontinue operations. An increase in the price of our wholesalers' services could have a material adverse effect on our results of operations. The need to change wholesalers could cause a disruption or delay in deliveries, which could adversely impact our results of operations. Similarly, if distributors of our digital content successfully impose revenue-sharing arrangements, our results may be adversely impacted.

### **We may be adversely affected by a continued weakening of newsstand sales.**

The magazine industry has seen a weakening of newsstand sales during the past few years. A continuation of this decline could adversely affect our financial condition and results of operations by further reducing our circulation revenue and causing us to either incur higher circulation expenses to maintain our rate bases, or to reduce our rate bases which could negatively impact our revenue.

### **We may be adversely affected by rebranding our *Body + Soul/Whole Living* publication.**

Effective with the June 2010 issue, we changed the name of *Body + Soul* magazine to *Whole Living* in an attempt to more effectively integrate it with our corresponding website, *wholeliving.com*, and to broaden the editorial coverage of the magazine. Changing the product name and editorial coverage may diminish brand awareness which could adversely impact newsstand sales and the satisfaction of current subscribers, resulting in a reduction in subscription renewal rates.

---

## [Table of Contents](#)

### **Our websites and internal networks may be vulnerable to unauthorized persons accessing our systems, which could disrupt our operations and result in the theft of our and our users' proprietary or personal information.**

Our website activities involve the storage and transmission of proprietary information and personal information of our users, which we endeavor to protect from third party access. However, it is possible that unauthorized persons may be able to circumvent our protections and misappropriate proprietary or personal information or cause interruptions or malfunctions in our digital operations. We may be required to spend significant capital and other resources to protect against or remedy any such security breaches. Accordingly, security breaches could expose us to a risk of loss due to business interruption, or litigation and possible liability. Our security measures and contractual provisions attempting to limit our liability in these areas may not be successful or enforceable.

### **Martha Stewart controls our Company through her stock ownership, enabling her to elect our board of directors, and potentially to block matters requiring stockholder approval, including any potential changes of control.**

Ms. Stewart controls all of our outstanding shares of Class B Common Stock, representing over 90% of our voting power. The Class B Common Stock has ten votes per share, while Class A Common Stock, which is the stock available to the public, has one vote per share. Because of this dual-class structure, Ms. Stewart has a disproportionately influential vote. As a result, Ms. Stewart has the ability to control unilaterally the outcome of all matters requiring stockholder approval, including the election and removal of our entire board of directors and any merger, consolidation or sale of all or substantially all of our assets, and the ability to control our management and affairs. While her 2006 settlement with the SEC bars Ms. Stewart for the five-year period ending in August 2011 from serving at the Company as a director, or as an officer with financial responsibilities, her concentrated control could, among other things, discourage others from initiating any potential merger, takeover or other change of control transaction that may otherwise be beneficial to our businesses and stockholders.

### **Our intellectual property may be infringed upon or others may accuse us of infringing on their intellectual property, either of which could adversely affect our business and result in costly litigation.**

Our business is highly dependent upon our creativity and resulting intellectual property. We are susceptible to others imitating our products and infringing our intellectual property rights. We may not be able to successfully protect our intellectual property rights, upon which we depend. In addition, the laws of many foreign countries do not protect intellectual property rights to the same extent as do the laws of the United States. Imitation of our products or infringement of our intellectual property rights could diminish the value of our brands or otherwise adversely affect our revenues. If we are alleged to have infringed the intellectual property rights of another party, any resulting litigation could be costly, affecting our finances and our reputation. Litigation also diverts the time and resources of management, regardless of the merits of the claim. There can be no assurance that we would prevail in any litigation relating to our intellectual property. If we were to lose such a case, and be required to cease the sale of certain products or the use of certain technology or if we were forced to pay monetary damages, the results could adversely affect our financial condition and our results of operations.

### **A loss of the services of other key personnel could have a material adverse effect on our business.**

Our continued success depends to a large degree upon our ability to attract and retain key management executives, as well as upon a number of key members of our creative staff. The loss of some of our senior executives or key members of our creative staff, or an inability to attract or retain other key individuals, could materially adversely affect us.

---

## [Table of Contents](#)

**We operate in three highly competitive businesses: Publishing, Broadcasting and Merchandising, each of which subjects us to competitive pressures and other uncertainties.**

We face intense competitive pressures and uncertainties in each of our three businesses.

Our magazines, books and related publishing products compete not only with other magazines, books and publishing products, but also with other mass media, websites, and many other types of leisure-time activities. We face significant competition from a number of print and website publishers, some of which have greater financial and other resources than we have, which may enhance their ability to compete in the markets we serve. As advertising budgets have diminished, the competition for advertising dollars has intensified. Competition for advertising revenue in publications is primarily based on advertising rates, the nature and scope of readership, reader response to the promotions for advertisers' products and services, the desirability of the magazine's demographic and the effectiveness of advertising sales teams. Other competitive factors in publishing include product positioning, editorial quality, circulation, price and customer service, which impact readership audience, circulation revenues and, ultimately, advertising revenues. Our websites compete with other how-to, food and lifestyle websites. Our challenge is to attract and retain users through an easy-to-use and content-relevant website. Competition for advertising is based on the number of unique users we attract each month, the demographic profile of that audience and the number of pages they view on our site. Because some forms of media have relatively low barriers to entry, we anticipate that additional competitors, some of which have greater resources than we do, may enter these markets and intensify competition.

Our television programs compete directly for viewers, distribution and/or advertising dollars with other lifestyle and how-to television programs, as well as with general programming and all other competing forms of media. Overall competitive factors in Broadcasting include programming content, quality and distribution, as well as the demographic appeal of the programming. Competition for television and radio advertising dollars is based primarily on advertising rates, audience size and demographic composition, viewer response to advertisers' products and services and the effectiveness of the advertising sales staff. Our radio programs compete for listeners with similarly themed programming on both satellite and terrestrial radio.

Our Merchandising segment competitors consist of mass-market and department stores that compete with the mass-market, home improvement and department stores in which our Merchandising segment products are sold, including Bed Bath & Beyond, BJ's, JC Penney, Kmart, Kohl's, Lowe's, Sam's Club, Target, and Wal-Mart. Our merchandising lines also compete within the mass-market, home improvement and department stores that carry our product lines with other products offered by these stores in the respective product categories. We also compete with the internet businesses of these stores and other websites that sell similar retail goods.

Our failure to meet the competitive pressures in any of these segments could negatively impact our results of operations and financial condition.

### **Item 1B. *Unresolved Staff Comments.***

None.

---

## [Table of Contents](#)

### **Item 2. Properties.**

Information concerning the location, use and approximate square footage of our principal facilities as of December 31, 2010, all of which are leased, is set forth below:

| <b>Location</b>   | <b>Use</b>   | <b>Approximate Area<br/>in Square Feet</b> |
|---|--|--|
| 601 West 26th Street<br>New York, NY                            | Product design facilities, photography studio, test kitchens and property storage<br>Principal executive and administrative offices; Publishing segment offices; Corporate offices; and<br>advertising sales offices | 218,249                                    |
| 226 West 26th Street<br>New York, NY                            | Executive and administrative office for television production  | 24,586                                     |
| 221 West 26th Street<br>New York, NY                            | Television production facilities   | 23,723                                     |
| Satellite Sales Offices in Michigan,<br>Illinois and California | Advertising sales offices  | 7,904                                      |

The lease for our television production facilities at 221 West 26<sup>th</sup> Street and our executive and administrative office for television production at 226 West 26<sup>th</sup> Street expired in 2010 and is currently in the process of being negotiated for renewal. The other leases for these offices and facilities expire between 2012 and 2018, and some of these leases are subject to our renewal. In 2009, we consolidated certain of our offices by relocating our principal executive and administrative offices, as well as a portion of our Publishing segment offices and advertising sales offices from 11 West 42nd Street to 601 West 26th Street. We entered into a sublease agreement in 2008 for a portion of our office space at 11 West 42nd Street; we vacated that office space in March 2009.

We also have an intangible asset agreement for various properties owned by Martha Stewart for our editorial, creative and product development processes. These living laboratories allow us to experiment with new designs and new products, such as garden layouts, help generate ideas for new content available to all of our media outlets and serve as locations for photo spreads and television segments. The description of this intangible asset agreement is incorporated by reference into Item 13 and disclosed in the related party transaction disclosure in Note 12, *Related Party Transactions*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

We believe that our existing facilities are well maintained and in good operating condition.

### **Item 3. Legal Proceedings.**

We are party to legal proceedings in the ordinary course of business, including product liability claims for which we are indemnified by our licensees. None of these proceedings is deemed material.

### **Item 4. [Removed and reserved]**

[Table of Contents](#)

**PART II**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

**Market for the Common Stock**

Our Class A Common Stock is listed and traded on The New York Stock Exchange (the "NYSE"). Our Class B Common Stock is not listed or traded on any exchange, but is convertible into Class A Common Stock at the option of its owner on a share-for-share basis. The following table sets forth the high and low sales price of our Class A Common Stock as reported by the NYSE for each of the periods listed.

|                  | Q1<br>2009 | Q2<br>2009 | Q3<br>2009 | Q4<br>2009 | Q1<br>2010 | Q2<br>2010 | Q3<br>2010 | Q4<br>2010 |
|------------------|------------|------------|------------|------------|------------|------------|------------|------------|
| High Sales Price | \$ 3.71    | \$ 4.08    | \$ 8.84    | \$ 6.38    | \$ 6.15    | \$ 7.45    | \$ 5.75    | \$ 4.96    |
| Low Sales Price  | \$ 1.60    | \$ 2.37    | \$ 2.70    | \$ 4.40    | \$ 4.36    | \$ 4.89    | \$ 4.28    | \$ 4.25    |

As of March 2, 2011, there were 8,207 record holders of our Class A Common Stock and one record holder of our Class B Common Stock. This does not include the number of persons whose stock is in nominee or "street name" accounts through brokers.

**Dividends**

We do not pay regular quarterly dividends.

Our term loan agreement with Bank of America contains certain covenants that limit our ability to pay dividends to an amount (combined with repurchases) no greater than \$30 million during the term of the loan agreement, provided no event of default exists or would result and we would be in pro forma compliance with our financial covenants. See Note 7, *Credit Facilities*, in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

**Recent Sales of Unregistered Securities and Use of Proceeds**

None.

**Issuer Purchases of Equity Securities**

The following table provides information about our purchases of our Class A Common Stock during each month of the quarter ended December 31, 2010:

| Period        | Total Number of<br>Shares (or Units)<br>Purchased (1) | Average Price Paid<br>per Share (or Unit) | Total Number of<br>Shares (or Units)<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs | Maximum Number (or<br>Approximate Dollar<br>Value) of Shares (or<br>Units) that May Yet Be<br>Purchased under the<br>Plans or Programs |
|---------------|---|---|---|--|
| October 2010  | 32,400  | \$ 4.75                                   | Not applicable  | Not applicable   |
| November 2010 | —   | —   | Not applicable  | Not applicable   |
| December 2010 | 233   | \$ 4.67                                   | Not applicable  | Not applicable   |
| Total         | 32,633  | \$ 4.73                                   |   |  |

- (1) Represents shares withheld by, or delivered to us pursuant to provisions in agreements with recipients of restricted stock granted under our stock incentive plans allowing us to withhold, or the recipient to deliver to us, the number of shares having the fair value equal to tax withholding due.

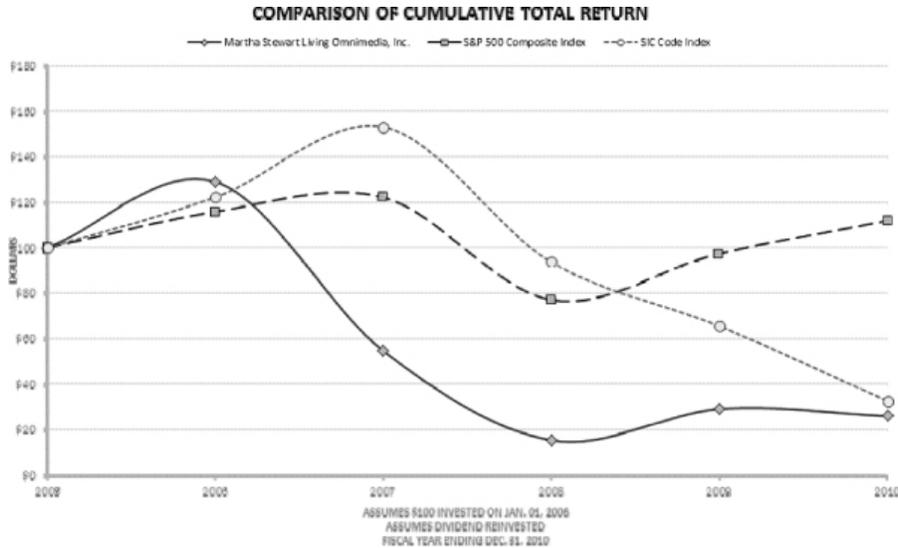
---

[Table of Contents](#)

Notwithstanding anything to the contrary set forth in any of our filings under the Securities Act or the Exchange Act, the following performance graph shall not be deemed to be incorporated by reference into any such filings.

**PERFORMANCE GRAPH**

The following graph compares the performance of our Class A Common Stock with that of the Standard & Poor's 500 Stock Index ("S&P 500 Composite Index") and the stocks included in the Media General Financial Services database under the Standard Industry Code 2721 (Publishing-Periodicals) (the "SIC Code Index"\*) during the period commencing on January 1, 2006 and ending on December 31, 2010. The graph assumes that \$100 was invested in each of our Class A Common Stock, the S&P 500 Composite Index and the SIC Code Index at the beginning of the relevant period, is calculated as of the end of each calendar month and assumes reinvestment of dividends. The performance shown in the graph represents past performance and should not be considered an indication of future performance.



---

\* The SIC Code Index consists of companies that are primarily publishers of periodicals, although many also conduct other businesses, including owning and operating television stations and cable networks, and is weighted according to market capitalization of the companies in the index. The hypothetical investment assumes investment in a portfolio of equity securities that mirror the composition of the SIC Code Index.

[Table of Contents](#)

**Item 6. Selected Financial Data.**

The information set forth below for the five years ended December 31, 2010 is not necessarily indicative of results of future operations, and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto incorporated by reference into Item 8 of this Annual Report on Form 10-K. The Notes to Selected Financial Data below include certain factors that may affect the comparability of the information presented below (in thousands, except per share amounts).

|  | 2010       | 2009        | 2008        | 2007       | 2006        |
|--|------------|-------------|-------------|------------|-------------|
| <b>INCOME STATEMENT DATA</b>                                 |            |             |             |            |             |
| <b>REVENUES</b>  |            |             |             |            |             |
| Publishing   | \$ 145,573 | \$ 146,100  | \$ 179,116  | \$ 202,916 | \$ 172,334  |
| Broadcasting   | 42,434     | 46,111      | 47,328      | 40,263     | 46,503      |
| Merchandising  | 42,806     | 52,566      | 57,866      | 84,711     | 69,504      |
| Total revenues   | 230,813    | 244,777     | 284,310     | 327,890    | 288,341     |
| Operating (loss) income                                      | (8,663)    | (11,968)    | (10,857)    | 7,714      | (2,833)     |
| Income (loss) from continuing operations                     | (9,596)    | (14,578)    | (15,665)    | 10,289     | (16,250)    |
| Loss from discontinued operations                            | —          | —           | —           | —          | (745)       |
| Net (loss) income  | \$ (9,596) | \$ (14,578) | \$ (15,665) | \$ 10,289  | \$ (16,995) |
| <b>PER SHARE DATA</b>  |            |             |             |            |             |
| <i>Earnings/(loss) per share:</i>                            |            |             |             |            |             |
| Basic and diluted — (Loss) income from continuing operations | \$ (0.18)  | \$ (0.27)   | \$ (0.29)   | \$ 0.20    | \$ (0.32)   |
| Basic and diluted — Loss from discontinued operations        | —          | —           | —           | —          | (0.01)      |
| Basic and diluted — Net (loss) income                        | \$ (0.18)  | \$ (0.27)   | \$ (0.29)   | \$ 0.20    | \$ (0.33)   |
| <i>Weighted average common shares outstanding:</i>           |            |             |             |            |             |
| Basic  | 54,440     | 53,880      | 53,360      | 52,449     | 51,312      |
| Diluted  | 54,440     | 53,880      | 53,360      | 52,696     | 51,312      |
| Dividends per common share                                   | \$ —       | \$ —        | \$ —        | \$ —       | \$ 0.50     |
| <b>FINANCIAL POSITION</b>                                    |            |             |             |            |             |
| Cash and cash equivalents                                    | \$ 23,204  | \$ 25,384   | \$ 50,204   | \$ 30,536  | \$ 28,528   |
| Short-term investments                                       | 10,091     | 13,085      | 9,915       | 26,745     | 35,321      |
| Total assets   | 222,314    | 229,791     | 261,285     | 255,267    | 228,047     |
| Long-term obligations  | 7,500      | 13,500      | 19,500      | —          | —           |
| Shareholders' equity   | 139,033    | 143,820     | 150,995     | 155,529    | 130,957     |
| <b>OTHER FINANCIAL DATA</b>                                  |            |             |             |            |             |
| Cash flow (used in) provided by operating activities         | \$ 1,872   | \$ (9,273)  | \$ 39,699   | \$ 8,306   | \$ (6,495)  |
| Cash flow (used in) provided by investing activities         | 153        | (9,617)     | (38,856)    | (6,606)    | 40,125      |
| Cash flow (used in) provided by financing activities         | (4,205)    | (5,930)     | 18,825      | 308        | (25,351)    |

---

[Table of Contents](#)

**NOTES TO SELECTED FINANCIAL DATA**

**(Loss) / income from continuing operations**

**2010** results include the recognition of substantially all of the exclusive license fee of approximately \$5.0 million from Hallmark Channel for a significant portion of our library of programming, as well as licensing revenue for other new programming delivered to the Hallmark Channel.

**2009** results include a net benefit to operating loss of approximately \$20 million from certain items including the revenue from Kmart of \$14.5 million, the recognition of previously deferred Kmart royalties of \$10.0 million as non-cash revenue, an incremental \$3.9 million from the conclusion of our relationship with TurboChef, a \$3.0 million cash receipt related to a make-whole payment and a non-cash impairment charge of \$11.4 million related to a cost-based equity investment in United Craft MS Brands LLC recorded in the Merchandising segment.

**2008** results include revenues from Kmart of \$23.8 million, as well as a \$9.3 million non-cash goodwill impairment charge recorded in the Publishing segment.

**2007** results include revenues from Kmart of \$64.3 million, as well as non-cash equity compensation expense of \$6.0 million due to the vesting of the final warrant granted to Mark Burnett in connection with the production of *The Martha Stewart Show*.

**2006** results include a net benefit to operating income of approximately \$48 million from certain items including revenues from Kmart of \$56.0 million, a one-time newsstand expense reduction adjustment of \$3.2 million related to the settlement of certain newsstand-related fees recorded in our Publishing segment, a favorable dispute resolution with a former merchandising licensee of \$2.5 million in income, royalty income of \$2.8 million related to the successful termination of a home video distribution agreement recorded in our Broadcasting segment, non-cash equity compensation expense of \$2.3 million resulting from the vesting of shares underlying a warrant granted to Mark Burnett in connection with his participation in *The Martha Stewart Show* and a one-time litigation reserve of \$17.1 million in connection with the *In re Martha Stewart Living Omnimedia Securities Litigation* matter, which included incurred and anticipated professional fees, net of insurance reimbursement.

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

**EXECUTIVE SUMMARY**

We are an integrated media and merchandising company providing consumers with inspiring lifestyle content and programming, and well-designed, high-quality products. Our Company is organized into three business segments with Publishing and Broadcasting representing our media platforms that are complemented by our Merchandising segment. Summarized below are our operating results for 2010, 2009 and 2008.

|   | 2010       | 2009        | 2008        |
|---|------------|-------------|-------------|
| <b>Total Revenues</b>                     | \$ 230,813 | \$ 244,777  | \$ 284,310  |
| <b>Total Operating Costs and Expenses</b> | 239,476    | 256,745     | 295,167     |
| <b>Total Operating (Loss) / Income</b>    | \$ (8,663) | \$ (11,968) | \$ (10,857) |

We generate revenue from various sources such as advertising customers and licensing partners. Publishing is our largest business segment, accounting for 63% of our total revenues in 2010. The primary source of Publishing segment revenue is advertising from our magazines, which include *Martha Stewart Living*, *Martha Stewart Weddings*; *Everyday Food*; and *Whole Living*. Magazine subscription, advertising revenue generated from our digital properties and newsstand sales, along with royalties from our book business, account for most of the balance of Publishing segment revenue. Broadcasting segment revenue is derived primarily from our

---

## [Table of Contents](#)

television advertising and licensing, as well as satellite radio advertising and licensing. Television programming is comprised of *The Martha Stewart Show*, a daily home and lifestyle show, *Everyday Food*, which airs on PBS, *Mad Hungry with Lucinda Scala Quinn*, programs featuring Chef Emeril Lagasse, as well as other programs. Satellite radio programming encompasses the *Martha Stewart Living Radio* channel on Sirius XM Radio. Merchandising segment revenues are generated from the licensing of our trademarks and designs for a variety of products sold at multiple price points through a wide range of distribution channels.

We incur expenses largely due to compensation and related charges across all segments. In addition, we incur expenses related to the physical costs associated with producing magazines (including related direct mail and other marketing expenses), the technology costs associated with our digital properties and the costs associated with producing our television programming. We also incur general overhead costs including facilities and related expenses.

Detailed segment operating results for 2010, 2009 and 2008 are summarized below.

|   | 2010              | 2009               | 2008               |
|---|-------------------|--------------------|--------------------|
| <b>Segment Revenues:</b>  |                   |                    |                    |
| Publishing Segment  | \$ 145,573        | \$ 146,100         | \$ 179,116         |
| Broadcasting Segment  | 42,434            | 46,111             | 47,328             |
| Merchandising Segment   | 42,806            | 52,566             | 57,866             |
| <b>TOTAL REVENUES</b>   | <b>230,813</b>    | <b>244,777</b>     | <b>284,310</b>     |
| <b>Segment Operating Costs and Expenses:</b>                        |                   |                    |                    |
| Publishing Segment  | 142,923           | 146,269            | 177,488            |
| Broadcasting Segment  | 44,012            | 39,971             | 44,548             |
| Merchandising Segment   | 17,805            | 26,915             | 25,008             |
| <b>TOTAL OPERATING COSTS AND EXPENSES BEFORE CORPORATE EXPENSES</b> | <b>204,740</b>    | <b>213,155</b>     | <b>247,044</b>     |
| <b>Operating Income / (Loss):</b>                                   |                   |                    |                    |
| Publishing Segment  | 2,650             | (169)              | 1,628              |
| Broadcasting Segment  | (1,578)           | 6,140              | 2,780              |
| Merchandising Segment   | 25,001            | 25,651             | 32,858             |
| <b>Total Segment Operating Income Before Corporate Expenses</b>     | <b>26,073</b>     | <b>31,622</b>      | <b>37,266</b>      |
| Corporate Expenses *  | (34,736)          | (43,590)           | (48,123)           |
| <b>TOTAL OPERATING LOSS</b>   | <b>\$ (8,663)</b> | <b>\$ (11,968)</b> | <b>\$ (10,857)</b> |

\* Corporate expenses include unallocated costs of certain items such as compensation and related costs for certain departments such as executive, finance, legal, human resources, office services and information technology, as well as allocated portions of rent and related expenses for these departments that reflect current utilization of office space. Unallocated expenses are recorded as Corporate expenses because these items are directed and controlled by central management and not our segment management and therefore should not be included as part of our segment operating performance.

---

## [Table of Contents](#)

### *2010 Operating Results Compared to 2009 Operating Results*

In 2010, total revenues decreased approximately 6% from 2009 due predominantly to the conclusion of our Kmart agreement, which ended in January 2010, as well as the absence of TurboChef revenue in 2010. Partially offsetting the decline in revenues was an increase in revenues in 2010 from 2009 from Merchandising segment partners other than Kmart and higher television licensing.

Revenues from our media platforms declined in 2010 from the prior year due to decreased revenues from circulation for our magazines primarily because of lower subscription revenue for *Martha Stewart Living* and *Everyday Food*, as well as the discontinuation of the subscription-based *Dr. Andrew Weil's Self Healing* newsletter and the newsstand-based Weil special interest publications. Media platform revenues also declined in 2010 from the prior year due to the absence of TurboChef revenue in 2010 and lower licensing fees related to our new radio agreement with Sirius XM Radio. Print advertising and Broadcasting advertising declined in 2010 from 2009. These declines were partially offset by an increase in 2010 in digital advertising revenue on our websites from the prior year, as well as the 2010 exclusive license of a significant portion of our library of television programming to the Hallmark Channel along with the delivery of new television programming to the Hallmark Channel.

Merchandising segment revenues declined in 2010 from 2009 primarily due to the conclusion of our Kmart agreement in January 2010, as well as the absence of TurboChef revenue in 2010. Excluding revenue from Kmart in both years, Merchandising segment revenues increased 48% for the year ended December 31, 2010 as compared to the prior year. The increase in revenues excluding Kmart was primarily due to the contributions of our new merchandising relationships, higher royalty rates and sales volume from certain of our existing partners, and a one-time \$1.0 million payment received from a manufacturing partner.

In 2010, our operating costs and expenses before Corporate expenses decreased approximately 4% from the prior year. The 2009 operating costs and expenses were impacted by non-cash impairment charges in the Merchandising segment of \$11.4 million related to our cost-based equity investment in United Craft MS Brands, LLC. Separately, 2009 results were favorably impacted by a \$3.0 million cash make-whole payment in the Merchandising segment. Excluding these two items, our segment operating costs and expenses in 2010 were approximately flat with 2009, as increases in Broadcasting production costs related to the delivery of new programming were offset by declines in Publishing general and administrative, which benefited from lower headcount and facilities-related costs, as well as depreciation and amortization expenses, which decreased primarily due to full depreciation by the second quarter of 2010 of the costs associated with the 2007 launch of our redesigned website.

Corporate general and administrative expenses decreased in 2010 compared to 2009 due to lower rent expense as a result of the consolidation of certain offices and lower cash and non-cash bonuses and lower compensation-related expenses.

### *2009 Operating Results Compared to 2008 Operating Results*

In 2009, total revenues decreased approximately 14% from 2008 due primarily to declines in print and television advertising revenue, as well as declines in our magazine subscription and newsstand revenues.

Revenues from our media platforms declined from the prior year mostly due to decreased revenues in our Publishing segment. The Publishing segment revenue decrease was the result of lower advertising revenue largely due to lower pages, lower subscription revenue, lower newsstand sales and the timing of books revenue, which was partially offset by higher digital advertising revenue. Our page views on our website increased, on average, in 2009 approximately 50% from 2008. In our Broadcasting segment, 2009 revenues declined from 2008 as the result of lower advertising revenue from lower ratings and certain one-time payments in 2008 related to Emeril Lagasse's television programming, partially offset by higher integration revenue. The Broadcasting segment also benefited in 2009 from revenue related to our TurboChef relationship, a marketing and promotional agreement we entered into in 2008 and terminated in December 2009.

---

## [Table of Contents](#)

Merchandising segment revenues in 2009 declined from 2008 mostly due to a decrease in services that we provide to our partners for reimbursable zero-margin creative services projects, as well as the prior-year contribution from Sears Canada, a relationship that expired in 2008. Our agreement with Kmart ended in January 2010. In 2009, we recognized the pro rata portion of the \$14.0 million minimum guaranteed royalty amount payable for the February 1, 2009 to January 31, 2010 period. In the fourth quarter of 2009, we also recognized \$10.0 million in previously deferred royalties related to Kmart recoupment as non-cash revenue.

In 2009, our operating costs and expenses decreased approximately 14% from 2008 primarily due to lower production, distribution and editorial costs, selling and promotion expenses, and general and administrative expenses across our media segments. These cost savings included savings from lower page volume, lower paper costs, lower television production costs, and from reduced discretionary spending, as well as lower compensation costs from staff reductions. Also, the Publishing segment included a non-cash impairment charge in the fourth quarter of 2008 related primarily to the goodwill associated with our 2004 acquisition of the *Body + Soul* publication group with no comparable expense in 2009. Merchandising segment operating costs and expenses were slightly higher due to non-cash impairment charges of \$11.4 million related to our cost-based equity investment in United Craft MS Brands, LLC. This was largely offset by lower selling and promotion expenses, as well as a 2009 benefit to Merchandising segment general and administrative expenses from a \$3.0 million cash make-whole payment that we received in October 2009 from our crafts manufacturing partner in connection with our investment as a result of its capital restructuring. Cost savings throughout the segments were partially due to the continued reduction of headcount which was lower by approximately 8% as compared to the beginning of the year.

Corporate general and administrative expenses were lower in 2009 due to a combination of Company-wide expense reduction initiatives and certain 2008 one-time items. The 2008 expenses included a Company-wide reorganization that resulted in severance and other one-time compensation-related expenses.

### *Liquidity*

During 2010, our overall cash, cash equivalents and short-term investments decreased \$5.2 million from December 31, 2009 due primarily to principal pre-payments of the term loan. Cash, cash equivalents and short-term investments were \$33.3 million and \$38.5 million at December 31, 2010 and December 31, 2009, respectively.

[Table of Contents](#)

**RESULTS OF OPERATIONS**

Comparison for the Year Ended December 31, 2010 to the Year Ended December 31, 2009.

**PUBLISHING SEGMENT**

| (in thousands)   | 2010            | 2009            | Better /<br>(Worse) |
|--|-----------------|-----------------|---------------------|
| <b>Publishing Segment Revenues</b>                           |                 |                 |                     |
| Print Advertising  | \$ 73,797       | \$ 74,815       | \$ (1,018)          |
| Digital Advertising  | 21,420          | 16,986          | 4,434               |
| Circulation  | 46,442          | 50,506          | (4,064)             |
| Books  | 2,756           | 2,779           | (23)                |
| Other  | 1,158           | 1,014           | 144                 |
| <b>Total Publishing Segment Revenues</b>                     | <b>145,573</b>  | <b>146,100</b>  | <b>(527)</b>        |
| <b>Publishing Segment Operating Costs and Expenses</b>       |                 |                 |                     |
| Production, distribution and editorial                       | 82,433          | 82,304          | (129)               |
| Selling and promotion  | 52,872          | 53,355          | 483                 |
| General and administrative                                   | 6,491           | 8,419           | 1,928               |
| Depreciation and amortization                                | 1,127           | 2,191           | 1,064               |
| <b>Total Publishing Segment Operating Costs and Expenses</b> | <b>142,923</b>  | <b>146,269</b>  | <b>3,346</b>        |
| <b>Publishing Segment Operating Income / (Loss)</b>          | <b>\$ 2,650</b> | <b>\$ (169)</b> | <b>\$ 2,819</b>     |

Publishing segment revenues were essentially flat for the year ended December 31, 2010 from the prior year. Print advertising revenue decreased \$1.0 million in 2010 from 2009 due to the decrease in advertising rates across all publications, which was largely offset by an increase in pages at *Martha Stewart Living*, *Martha Stewart Weddings* and *Whole Living*. Digital advertising revenue increased \$4.4 million or 26% in 2010 from 2009 due to an increase in sold advertising volume. Overall digital advertising rates were lower in 2010 compared to 2009. Circulation revenue decreased \$4.1 million in 2010 from the prior year due to the discontinuation of the subscription-based *Dr. Andrew Weil's Self Healing* newsletter and lower effective subscription rates per copy and lower volume at *Martha Stewart Living* and *Everyday Food*. Circulation revenue was also impacted by the discontinuation of the newsstand-based Weil special interest publications and lower unit sales of *Martha Stewart Weddings*, special interest publications and *Everyday Food*. Partially offsetting the decline in circulation revenue were lower agent commissions for subscriptions of *Everyday Food* and *Whole Living*.

**Magazine Publication Schedule**

| Year ended December 31,                          | 2010      | 2009      |
|--|-----------|-----------|
| <i>Martha Stewart Living</i>                     | 12 Issues | 12 Issues |
| <i>Martha Stewart Weddings</i> (a)               | 5 Issues  | 5 Issues  |
| <i>Everyday Food</i>                             | 10 Issues | 10 Issues |
| <i>Whole Living</i>                              | 10 Issues | 10 Issues |
| <i>Special Interest Publications</i>             | 2 Issues  | 5 Issues  |
| <i>Dr. Andrew Weil's Self Healing</i> newsletter | None      | 12 Issues |

(a) In 2010 and 2009 we published one special *Martha Stewart Weddings* issue.

Production, distribution and editorial expenses increased \$0.1 million for the year ended December 31, 2010 from the prior year due to higher art and editorial compensation and story costs to support the print and digital magazines, books and the websites, as well as higher production and distribution expenses related to the increase in magazine pages. These expenses were partially offset by lower paper costs, lower cash and non-cash bonuses and the discontinuation of *Dr. Andrew Weil's Self Healing* newsletter and the Weil special interest publications.

## [Table of Contents](#)

Selling and promotion expenses decreased \$0.5 million due to lower advertising and consumer marketing staff costs including lower cash and non-cash bonuses, as well as lower subscriber acquisition costs, lower newsstand placement expenses and the discontinuation of the Weil newsletter and special interest publications. The decrease in selling and promotion expenses was partially offset by higher direct mail investment for *Martha Stewart Living* and additional website infrastructure investment related to the replatforming of the website. General and administrative expenses decreased \$1.9 million primarily due to lower headcount and lower facilities-related costs. Depreciation and amortization expenses decreased \$1.1 million primarily due to the full depreciation by the second quarter of 2010 of the costs associated with the 2007 launch of our redesigned website.

### BROADCASTING SEGMENT

| (in thousands)   | 2010              | 2009            | Better /<br>(Worse) |
|--|-------------------|-----------------|---------------------|
| <b>Broadcasting Segment Revenues</b>                           |                   |                 |                     |
| Advertising  | \$ 23,499         | \$ 24,454       | \$ (955)            |
| Radio  | 3,500             | 7,000           | (3,500)             |
| Licensing and other  | 15,435            | 14,657          | 778                 |
| <b>Total Broadcasting Segment Revenues</b>                     | <b>42,434</b>     | <b>46,111</b>   | <b>(3,677)</b>      |
| <b>Broadcasting Segment Operating Costs and Expenses</b>       |                   |                 |                     |
| Production, distribution and editorial                         | 33,911            | 29,669          | (4,242)             |
| Selling and promotion  | 3,254             | 3,028           | (226)               |
| General and administrative                                     | 5,969             | 5,885           | (84)                |
| Depreciation and amortization                                  | 878               | 1,389           | 511                 |
| <b>Total Broadcasting Segment Operating Costs and Expenses</b> | <b>44,012</b>     | <b>39,971</b>   | <b>(4,041)</b>      |
| <b>Broadcasting Segment Operating (Loss) / Income</b>          | <b>\$ (1,578)</b> | <b>\$ 6,140</b> | <b>\$ (7,718)</b>   |

Broadcasting segment revenues decreased 8% for the year ended December 31, 2010 from the prior year. Advertising revenue decreased \$1.0 million primarily due to the decline in household ratings for season 5 of *The Martha Stewart Show* in syndication compared with season 4. The decrease was partially offset by an increase in the quantity of integrations at higher rates and the inclusion of advertising revenue from our new radio agreement with Sirius XM Radio, which provides for lower licensing fees than our previous agreement, but also provides an opportunity to replace a portion of the licensing fees through advertising sales. However, as a result of the lower licensing fees in the new radio agreement, radio licensing revenue decreased \$3.5 million. Licensing and other revenue increased \$0.8 million in 2010 due to the recognition of substantially all of the exclusive license fee of approximately \$5.0 million from Hallmark Channel for a significant portion of our library of programming. In addition, licensing revenue increased from the delivery of new television programming to the Hallmark Channel as part of the companion programming to *The Martha Stewart Show*, which include *Mad Hungry with Lucinda Scala Quinn*, *Whatever Martha!* and specials. These increases were largely offset by the absence of revenue from our TurboChef relationship and historical cable retransmission revenue, both of which contributed revenues in 2009, as well as lower licensing revenues related to Emeril Lagasse's television programming and lower international licensing revenues.

Production, distribution and editorial expenses increased \$4.2 million due primarily to television production costs related to the new programming on the Hallmark Channel. These expenses were partially offset by lower distribution fees and production cost savings related to season 5 of *The Martha Stewart Show* as compared to the prior year's season 4. Selling and promotion expenses increased \$0.2 million due to higher compensation-related costs. Depreciation and amortization expenses decreased \$0.5 million primarily due to the timing of amortization in connection with the revenue recognition related to our library of Emeril Lagasse television content.

---

[Table of Contents](#)**MERCHANDISING SEGMENT**

| (in thousands)  | 2010             | 2009             | Better /<br>(Worse) |
|---|------------------|------------------|---------------------|
| <b>Merchandising Segment Revenues</b>                           |                  |                  |                     |
| Royalty and other   | \$ 41,621        | \$ 28,066        | \$ 13,555           |
| Kmart earned royalty  | 114              | 7,793            | (7,679)             |
| Kmart minimum guarantee true-up                                 | 1,071            | 6,707            | (5,636)             |
| Recognition of previously deferred royalties from Kmart         | —                | 10,000           | (10,000)            |
| <b>Total Merchandising Segment Revenues</b>                     | <b>42,806</b>    | <b>52,566</b>    | <b>(9,760)</b>      |
| <b>Merchandising Segment Operating Costs and Expenses</b>       |                  |                  |                     |
| Production, distribution and editorial                          | 7,891            | 9,549            | 1,658               |
| Selling and promotion   | 4,162            | 2,950            | (1,212)             |
| General and administrative                                      | 5,709            | 2,922            | (2,787)             |
| Depreciation and amortization                                   | 43               | 62               | 19                  |
| Impairment charge — other asset                                 | —                | 11,432           | 11,432              |
| <b>Total Merchandising Segment Operating Costs and Expenses</b> | <b>17,805</b>    | <b>26,915</b>    | <b>9,110</b>        |
| <b>Merchandising Segment Operating Income</b>                   | <b>\$ 25,001</b> | <b>\$ 25,651</b> | <b>\$ (650)</b>     |

Merchandising segment revenues decreased 19% for the year ended December 31, 2010 from the prior year. The 2009 revenues included \$24.5 million of revenues related to our agreement with Kmart as compared to only \$1.2 million in 2010. Excluding revenues from Kmart, other Merchandising segment revenues increased \$13.6 million or 48% primarily due to the contributions of our new merchandising relationships, higher royalty rates and sales volume from certain of our existing partners, a one-time \$1.0 million payment received from a manufacturing partner and the additional one-time revenue from the early termination of our agreement with 1-800-Flowers.com. These increases in royalty and other revenue were partially offset by the absence of revenue from our TurboChef relationship, which contributed revenues in 2009.

Our agreement with Kmart ended in January 2010. The pro-rata portion of revenues related to the contractual minimum amounts from Kmart covering the specified periods is listed separately above as Kmart minimum guarantee true-up. In 2009, we also recognized royalties that were previously received and deferred and were subject to recoupment. No royalties were recouped throughout the Kmart relationship and therefore, we recognized \$10.0 million as non-cash revenue in the fourth quarter of 2009.

Production, distribution and editorial expenses decreased \$1.7 million in 2010 due to lower allocated facilities costs, as compared to 2009, as well as lower cash and non-cash bonuses. The allocation policy for facilities expenses changed in 2010 for the Merchandising segment only. All allocated rent and facilities charges are now reflected in the Merchandising segment in the general and administrative expense category. This allocation change does not impact any of our other business segments. Selling and promotion expenses increased \$1.2 million mostly as a result of services that we provide to our partners for reimbursable, zero-margin creative services projects. General and administrative costs increased \$2.8 million largely due to the benefit of a \$3.0 million cash make-whole payment that we recognized in 2009 from our crafts manufacturing partner in connection with our investment as the result of its capital restructuring. In addition, general and administrative costs increased in 2010 due to higher allocated facilities costs due to the change in policy described above, partially offset by lower cash and non-cash bonus accruals. In 2009, we recorded non-cash impairment charges of \$11.4 million related to our cost-based equity investment in United Craft MS Brands, LLC.

---

[Table of Contents](#)**CORPORATE**

| (in thousands)                                      | 2010               | 2009               | Better /<br>(Worse) |
|---|--------------------|--------------------|---------------------|
| <b>Corporate Operating Costs and Expenses</b>       |                    |                    |                     |
| General and administrative                          | \$ 32,152          | \$ 39,358          | \$ 7,206            |
| Depreciation and amortization                       | 2,584              | 4,232              | 1,648               |
| <b>Total Corporate Operating Costs and Expenses</b> | <u>34,736</u>      | <u>43,590</u>      | <u>8,854</u>        |
| <b>Corporate Operating Loss</b>                     | <u>\$ (34,736)</u> | <u>\$ (43,590)</u> | <u>\$ 8,854</u>     |

Corporate operating costs and expenses decreased 20% for the year ended December 31, 2010 from the prior year. General and administrative expenses decreased \$7.2 million due to lower rent expense as a result of the consolidation of certain offices and lower cash and non-cash bonuses and lower compensation-related expenses. Depreciation and amortization expenses decreased \$1.6 million due to lower depreciation expense also related to the relocation of our office space.

**OTHER ITEMS**

**INTEREST (EXPENSE) / INCOME, NET.** Interest expense, net, was \$0.1 million for both 2010 and 2009.

**LOSS ON SALE OF FIXED ASSET.** Loss on the sale of a fixed asset was \$0.6 million for 2010 with no comparable loss in the prior year.

**GAIN ON SALE OF SHORT-TERM INVESTMENTS.** Gain on the sale of short-term investments from the disposition of certain marketable equity securities was \$1.5 million for 2010 and \$0.3 million in 2009.

**LOSS ON EQUITY SECURITIES.** Loss on equity securities was \$0.02 million for 2010 compared to \$0.9 million in 2009. The losses were the result of marking certain assets to fair value in accordance with accounting principles governing derivative instruments.

**OTHER (LOSS)/INCOME.** Other loss was \$0.2 million for 2009 with no comparable loss in 2010. The other loss in 2009 was related to certain investments in equity securities that were previously accounted for under the equity method but, since the second quarter of 2009, have been accounted for under the cost method.

**INCOME TAX EXPENSE.** Income tax expense was \$1.7 million for both 2010 and 2009.

**NET LOSS.** Net loss was (\$9.6) million for 2010, compared to a net loss of (\$14.6) million for 2009, as a result of the factors described above.

[Table of Contents](#)

**RESULTS OF OPERATIONS**

Comparison for the Year Ended December 31, 2009 to the Year Ended December 31, 2008.

**PUBLISHING SEGMENT**

| (in thousands)   | 2009            | 2008            | Better /<br>(Worse) |
|--|-----------------|-----------------|---------------------|
| <b>Publishing Segment Revenues</b>                           |                 |                 |                     |
| Print Advertising  | \$ 74,815       | \$ 94,871       | \$ (20,056)         |
| Digital Advertising  | 16,986          | 14,358          | 2,628               |
| Circulation  | 50,506          | 62,634          | (12,128)            |
| Books  | 2,779           | 4,676           | (1,897)             |
| Other  | 1,014           | 2,577           | (1,563)             |
| <b>Total Publishing Segment Revenues</b>                     | <b>146,100</b>  | <b>179,116</b>  | <b>(33,016)</b>     |
| <b>Publishing Segment Operating Costs and Expenses</b>       |                 |                 |                     |
| Production, distribution and editorial                       | 82,304          | 95,002          | 12,698              |
| Selling and promotion  | 53,355          | 61,583          | 8,228               |
| General and administrative                                   | 8,419           | 9,438           | 1,019               |
| Depreciation and amortization                                | 2,191           | 2,116           | (75)                |
| Impairment charge — goodwill and other asset                 | —               | 9,349           | 9,349               |
| <b>Total Publishing Segment Operating Costs and Expenses</b> | <b>146,269</b>  | <b>177,488</b>  | <b>31,219</b>       |
| <b>Publishing Segment Operating (Loss) / Income</b>          | <b>\$ (169)</b> | <b>\$ 1,628</b> | <b>\$ (1,797)</b>   |

Publishing segment revenues decreased 18% for the year ended December 31, 2009 from the prior year. Print advertising revenue decreased \$20.1 million due to the decrease in pages in *Martha Stewart Living*, *Martha Stewart Weddings*, *Everyday Food* and *Body + Soul*. The decrease in advertising pages was accompanied by a decrease in advertising rates at *Martha Stewart Living* and *Martha Stewart Weddings* partially offset by slightly higher advertising rates in *Everyday Food* and *Body + Soul* driven in part by a higher circulation rate base. Digital advertising revenue increased \$2.6 million, or 18%, due to an increase in audience and sold advertising volume, despite lower effective rates. Circulation revenue decreased \$12.1 million due to higher agency commissions and lower effective subscription rate per copy for *Martha Stewart Living*, *Everyday Food* and *Body + Soul*, offset in part by a higher subscriber volume. Circulation revenue also decreased as a result of lower newsstand unit volume across all of our titles, as well as the prior year contribution of eight special interest publications as compared to five special interest publications in 2009. Revenue related to our books business decreased \$1.9 million primarily due to the timing of delivery and acceptance of manuscripts related to our multi-book agreements with Clarkson Potter/Publishers for Martha Stewart books and Harper Studios for Emeril Lagasse books. Other revenue decreased \$1.6 million as digital product revenue decreased \$1.1 million due to the inclusion of revenue from *Martha Stewart Flowers* in the first quarter of 2008. Beginning in the second quarter of 2008, we transitioned to a co-branded agreement with 1-800-Flowers.com. Revenue and related earnings for this business were reported in our Merchandising segment.

**Magazine Publication Schedule**

| Year ended December 31,                          | 2009      | 2008      |
|--|-----------|-----------|
| <i>Martha Stewart Living</i>                     | 12 Issues | 12 Issues |
| <i>Martha Stewart Weddings</i> (a)               | 5 Issues  | 5 Issues  |
| <i>Everyday Food</i>                             | 10 Issues | 10 Issues |
| <i>Body + Soul</i>                               | 10 Issues | 10 Issues |
| <i>Special Interest Publications</i>             | 5 Issues  | 8 Issues  |
| <i>Dr. Andrew Weil's Self Healing newsletter</i> | 12 Issues | 12 Issues |

(a) In 2009 and 2008, we published one special *Martha Stewart Weddings* issue.

## [Table of Contents](#)

Production, distribution and editorial expenses decreased \$12.7 million, primarily due to savings related to lower volume of pages and lower paper costs. Additionally, art and editorial story and staff costs decreased partly due to lower headcount. Production, distribution and editorial costs also decreased due to the prior year transition of our flowers business to 1-800-Flowers.com, which eliminated inventory and shipping expenses. Beginning in the second quarter of 2008, costs related to our higher-margin 1-800-Flowers.com program were reported in the Merchandising segment. Selling and promotion expenses decreased \$8.2 million due to lower fulfillment rates associated with *Martha Stewart Living* and *Everyday Food*, lower marketing program and lower circulation marketing costs. These decreases were partially offset by higher newsstand placement expenses for *Martha Stewart Living* and *Everyday Food* and certain higher compensation expenses. General and administrative expenses decreased \$1.0 million due to reduced headcount as compared to the prior year as well as lower allocated payroll and benefits and lower non-cash compensation costs, partially offset by higher facilities-related expenses from the reallocation of rent charges to reflect current utilization of office space. The increase in our Publishing segment rent allocation has offsetting decreases in our Merchandising and Corporate segments. In the fourth quarter of 2008, we recorded a non-cash impairment charge related primarily to the goodwill associated with our 2004 acquisition of the *Body + Soul* publication group. This charge was the result of our annual impairment testing in connection with the preparation of the 2008 Annual Report on Form 10-K.

### BROADCASTING SEGMENT

| (in thousands)   | 2009            | 2008            | Better /<br>(Worse) |
|--|-----------------|-----------------|---------------------|
| <b>Broadcasting Segment Revenues</b>                           |                 |                 |                     |
| Advertising  | \$ 24,454       | \$ 26,666       | \$ (2,212)          |
| Radio  | 7,000           | 7,500           | (500)               |
| Licensing and other  | 14,657          | 13,162          | 1,495               |
| <b>Total Broadcasting Segment Revenues</b>                     | <u>46,111</u>   | <u>47,328</u>   | <u>(1,217)</u>      |
| <b>Broadcasting Segment Operating Costs and Expenses</b>       |                 |                 |                     |
| Production, distribution and editorial                         | 29,669          | 31,291          | 1,622               |
| Selling and promotion  | 3,028           | 3,392           | 364                 |
| General and administrative                                     | 5,885           | 7,287           | 1,402               |
| Depreciation and amortization                                  | 1,389           | 2,578           | 1,189               |
| <b>Total Broadcasting Segment Operating Costs and Expenses</b> | <u>39,971</u>   | <u>44,548</u>   | <u>4,577</u>        |
| <b>Broadcasting Segment Operating Income</b>                   | <u>\$ 6,140</u> | <u>\$ 2,780</u> | <u>\$ 3,360</u>     |

Broadcasting segment revenues decreased 3% for the year ended December 31, 2009 from the prior year. Advertising revenue decreased \$2.2 million primarily due to the decline in household ratings for *The Martha Stewart Show* and lower *Everyday Food* PBS sponsorship revenue of \$0.5 million as the result of the decision not to produce an additional season of *Everyday Baking from Everyday Food* in 2009. This decrease was partially offset by an increase in the quantity of integrations at higher rates, as well as higher advertising rates overall. Radio revenue decreased \$0.5 million related to our new agreement with Sirius XM Radio which has the potential to provide for greater advertising opportunity to replace lower licensing fees. Licensing and other revenue increased \$1.5 million due to the revenue related to the conclusion of our TurboChef relationship and historical cable retransmission partially offset by lower revenue from Emeril Lagasse's television programming and lower international distribution of *The Martha Stewart Show*.

Production, distribution and editorial expenses decreased \$1.6 million due to production cost savings related to season 4 of *The Martha Stewart Show* which ended in September 2009 as compared to the prior year's season 3, as well as lower distribution fees. Selling and promotion expenses decreased \$0.4 million primarily due to lower headcount and reduced spending related to the season 5 launch as compared to the prior year's season 4

[Table of Contents](#)

launch. General and administrative expenses decreased \$1.4 million due to lower headcount and related costs. Depreciation and amortization expenses decreased \$1.2 million primarily due to the timing of amortization in connection with the revenue recognition related to our library of Emeril Lagasse television content.

**MERCHANDISING SEGMENT**

| (in thousands)  | 2009             | 2008             | Better /<br>(Worse) |
|---|------------------|------------------|---------------------|
| <b>Merchandising Segment Revenues</b>                           |                  |                  |                     |
| Royalty and other   | \$ 28,066        | \$ 34,116        | \$ (6,050)          |
| Kmart earned royalty  | 7,793            | 18,772           | (10,979)            |
| Kmart minimum guarantee true-up                                 | 6,707            | 4,978            | 1,729               |
| Recognition of previously deferred royalties from Kmart         | 10,000           | —                | 10,000              |
| <b>Total Merchandising Segment Revenues</b>                     | <u>52,566</u>    | <u>57,866</u>    | <u>(5,300)</u>      |
| <b>Merchandising Segment Operating Costs and Expenses</b>       |                  |                  |                     |
| Production, distribution and editorial                          | 9,549            | 10,409           | 860                 |
| Selling and promotion   | 2,950            | 6,529            | 3,579               |
| General and administrative                                      | 2,922            | 7,980            | 5,058               |
| Depreciation and amortization                                   | 62               | 90               | 28                  |
| Impairment charge — other asset                                 | 11,432           | 0                | (11,432)            |
| <b>Total Merchandising Segment Operating Costs and Expenses</b> | <u>26,915</u>    | <u>25,008</u>    | <u>(1,907)</u>      |
| <b>Merchandising Segment Operating Income</b>                   | <u>\$ 25,651</u> | <u>\$ 32,858</u> | <u>\$ (7,207)</u>   |

Merchandising segment revenues decreased 9% for the year ended December 31, 2009 from the prior year. Our agreement with Kmart ended in January 2010. The pro-rata portion of revenues related to the contractual minimum amounts from Kmart covering the specified periods is listed separately above as Kmart minimum guarantee true-up. In 2009, we also recognized royalties that were previously received and deferred and were subject to recoupment. No royalties were recouped throughout the Kmart relationship and therefore, we recognized \$10.0 million as non-cash revenue in the fourth quarter of 2009. The decrease in other revenues was mostly due to a decrease in services that we provide to our partners for reimbursable zero-margin creative services projects and the prior year revenue true-up from Sears Canada, a relationship that expired in the third quarter of 2008.

Production, distribution and editorial expenses decreased \$0.9 million due primarily to lower compensation costs as compared to the prior year due to reduced staffing. Selling and promotion expenses decreased \$3.6 million primarily as a result of the corresponding revenue decrease in services that we provide to our partners for reimbursable creative services projects. General and administrative costs decreased \$5.0 million primarily due to a \$3.0 million cash make-whole payment that we received in October 2009 from our crafts manufacturing partner in connection with our investment as the result of its capital restructuring. In addition, general and administrative expenses decreased due to lower facilities-related expenses primarily due to reallocating rent charges among the segments to reflect current utilization. The decrease in our Merchandising segment rent allocation has offsetting increases in our Publishing segment. For the year ended December 31, 2009, we recorded non-cash impairment charges of \$11.4 million related to our cost-based equity investment in United Craft MS Brands, LLC.

---

[Table of Contents](#)**CORPORATE**

| (in thousands)                                      | 2009               | 2008               | Better /<br>(Worse) |
|---|--------------------|--------------------|---------------------|
| <b>Corporate Operating Costs and Expenses</b>       |                    |                    |                     |
| General and administrative                          | \$ 39,358          | \$ 44,934          | \$ 5,576            |
| Depreciation and amortization                       | 4,232              | 3,189              | (1,043)             |
| <b>Total Corporate Operating Costs and Expenses</b> | <u>43,590</u>      | <u>48,123</u>      | <u>4,533</u>        |
| <b>Corporate Operating Loss</b>                     | <u>\$ (43,590)</u> | <u>\$ (48,123)</u> | <u>\$ 4,533</u>     |

Corporate operating costs and expenses decreased 9% for the year ended December 31, 2009 from the prior year. General and administrative expenses decreased largely due to a company-wide reorganization in 2008 that resulted in severance and other one-time expenses as well as charges related to facility expenses in 2008. Expenses also decreased due to reallocating rent charges to reflect current utilization. The decrease in our Corporate segment has an offsetting increase in our Publishing segment. Partially offsetting the decrease in general and administrative expenses was higher bonus expense in 2009 compared to 2008. Depreciation and amortization expenses increased \$1.0 million due to accelerated depreciation charges related to the relocation of our office space.

**OTHER ITEMS**

**INTEREST (EXPENSE) / INCOME, NET.** Interest expense, net, was \$0.1 million for 2009, compared to interest income, net, of \$0.5 million for 2008. The decrease in interest income was primarily attributable to lower interest rates on our money market funds and short-term investments, as well as lower average cash balances. The decrease was partially offset by a decline in interest expense in connection with our term loan related to the acquisition of certain assets of Emeril Lagasse due to a lower average outstanding principal balance in 2009 and lower interest rates.

**GAIN ON SALE OF SHORT-TERM INVESTMENTS.** Gain on the sale of short-term investments from the disposition of certain marketable equity securities was \$0.3 million in 2009 with no comparable gain in 2008.

**LOSS ON EQUITY SECURITIES.** Loss on equity securities was \$0.9 million for 2009 compared to a loss of \$2.2 million in 2008. The loss was the result of marking certain assets to fair value in accordance with accounting principles governing derivative instruments. The losses were partially offset by our gain from the sale of certain equity securities.

**OTHER (LOSS)/INCOME.** Other loss was \$0.2 million for 2009 compared to \$0.8 million in 2008. Certain investments in equity securities, previously accounted for under the equity method, were accounted for under the cost method beginning in the second quarter of 2009.

**INCOME TAX EXPENSE.** Income tax expense was \$1.7 million for 2009, compared to a \$2.3 million expense in 2008. The difference is primarily due to the establishment of deferred tax liabilities in 2008 on indefinite lived intangibles with no tax basis.

**NET LOSS.** Net loss was (\$14.6) million for 2009, compared to a net loss of (\$15.7) million for 2008, as a result of the factors described above.

**LIQUIDITY AND CAPITAL RESOURCES***Overview*

Our primary source of liquidity has generally been from cash generated by operating activities. Specifically, in 2008, cash from operations was provided by Kmart and from the Emeril Lagasse assets acquired in 2008. In 2009, we used cash for operations due to the significant reduction in cash received related to the Kmart

---

## [Table of Contents](#)

contractual minimums as compared to 2008, as well as the increase in working capital. The increase to working capital was due to the increase in certain receivables and the decrease in deferred subscription revenue. In 2010, cash from operations was provided by our business segment performance as described above. Operating results and cash flows may change due to a variety of factors, including changes in demand for the product, changes in our cost structure and changes in macroeconomic factors. Any such changes in our business can have a significant effect on cash flows.

We believe, as described further below, that our available cash balances and short-term investments will be sufficient to meet our recurring cash needs for working capital and capital expenditures for 2011.

### *Sources and Uses of Cash*

During 2010, our overall cash, cash equivalents and short-term investments decreased \$5.2 million from December 31, 2009 due primarily to principal pre-payments of the term loan. Cash, cash equivalents and short-term investments were \$33.3 million and \$38.5 million at December 31, 2010 and December 31, 2009, respectively.

### **Operating Activities**

Our cash inflows from operating activities are generated by our business segments from revenues, as described above, which include cash from advertising customers, licensing partners and magazine circulation sales. Operating cash outflows generally include employee and related costs, the physical costs associated with producing magazines and our television shows and the cash costs of facilities.

Cash provided by and (used in) operating activities was \$1.9 million, \$(9.3) million and \$39.7 million for the years ended December 31, 2010, 2009 and 2008, respectively. In 2010, cash provided by operations increased from 2009 despite our 2010 net loss as the result of non-cash factors impacting our net loss. In addition, cash provided by operations in 2010 benefited from the satisfaction of the 2009 year-end receivable due from Kmart and other advertising receivables, partially offset by the addition of a receivable related to the recognition of substantially all of the exclusive license fee from Hallmark Channel for a significant portion of our library of programming.

### **Investing Activities**

Our cash inflows from investing activities generally include proceeds from the sale of short-term investments. Investing cash outflows generally include payments for short- and long-term investments, additions to property, plant, and equipment, and for the acquisition of new businesses.

Cash provided by and (used in) investing activities was \$0.2 million, \$(9.6) million and \$(38.9) million for the years ended December 31, 2010, 2009 and 2008, respectively. In 2010, cash flow provided by investing activities was the result of cash received from the sale of a fixed asset and net sales of short-term investments largely offset by cash used for capital improvements, including expenditures to upgrade office technology and to relocate and consolidate certain offices.

### **Financing Activities**

Our cash inflows from financing activities generally include proceeds from the exercise of stock options for our Class A Common Stock issued under our equity incentive plans, as well as proceeds from debt financing. Cash outflows from financing activities generally include principal repayment of outstanding debt and debt issuance costs.

Cash flows (used in) and provided by financing activities were \$(4.2) million, \$(5.9) million and \$18.8 million for the years ended December 31, 2010, 2009 and 2008, respectively. In 2010, we made \$4.5 million in principal pre-payments on our term loan with Bank of America related to the acquisition of certain assets of Emeril Lagasse.

---

## [Table of Contents](#)

### Debt

We have a line of credit with Bank of America in the amount of \$5.0 million, which is generally used to secure outstanding letters of credit. The line was renewed as of June 30, 2010 for a one-year period. The renewal did not include any substantive changes from the prior year's terms. We were compliant with the debt covenants related to the line of credit as of December 31, 2010. We had no outstanding borrowings under this facility as of December 31, 2010 and had letters of credit outstanding of \$2.6 million.

In April 2008, we entered into a loan agreement with Bank of America for a term loan in the amount of \$30.0 million related to the acquisition of certain assets of Emeril Lagasse. The loan is secured by substantially all of the assets of the Emeril business that we acquired. The loan agreement requires equal principal payments of \$1.5 million and accrued interest to be paid by us quarterly for the duration of the loan term, approximately 5 years. As of December 31, 2010, we have paid \$21.0 million in principal, including prepayment of the \$4.5 million due through September 30, 2011, such that \$9.0 million was outstanding at December 31, 2010. Only one principal payment of \$1.5 million due as of December 31, 2011 is reflected as a current liability in the consolidated balance sheet as of December 31, 2010. The interest rate on all outstanding amounts is equal to a floating rate of 1-month London Interbank Offered Rate ("LIBOR") plus 2.85%.

The loan terms require us to be in compliance with certain financial and other covenants, failure with which to comply would result in an event of default and would permit Bank of America to accelerate and demand repayment of the loan in full.

A summary of the most significant financial covenants is as follows:

#### Financial Covenant

|  |                               |
|--|-------------------------------|
| Tangible Net Worth   | At least \$40.0 million       |
| Funded Debt to EBITDA (a)  | Equal to or less than 2.0     |
| Parent Guarantor (the Company) Basic Fixed Charge Coverage Ratio (b) | Equal to or greater than 2.75 |
| Quick Ratio  | Equal to or greater than 1.0  |

- (a) EBITDA is net income before interest, taxes, depreciation, amortization, non-cash equity compensation and impairment charges as defined in the loan agreement and subsequent waiver and amendment.
- (b) Basic Fixed Charge Coverage is the ratio of EBITDA for the trailing four quarters to the sum of interest expense for the trailing four quarters and the current portion of long-term debt at the covenant testing date.

In the fourth quarter, we had anticipated that we would not be in compliance with the covenants of the loan agreement that require us to maintain a Funded Debt to EBITDA Ratio equal to or less than 2.0 and a Parent Guarantor Basic Fixed Charge Ratio equal to or greater than 2.75 for the twelve month period ending December 31, 2010. As a result, we executed a waiver in respect of the maintenance of these covenants of the loan agreement with Bank of America that applies to the fourth quarter of 2010 and the first quarter of 2011. Other than the covenants that were waived, we were compliant with the debt covenants as of December 31, 2010.

In the first quarter of 2011, we anticipated that we would not be in compliance with the covenants of the loan agreement that require us to maintain Tangible Net Worth of at least \$40 million as of March 31, 2011, as well as to maintain a Funded Debt to EBITDA Ratio equal to or less than 2.0 and a Parent Guarantor Basic Fixed Charge Ratio equal to or greater than 2.75 for the twelve month period ending June 30, 2011. As a result, we executed an amendment to the loan agreement with Bank of America, which requires us to maintain Tangible Net Worth of at least \$35 million that applies to the first quarter of 2011, and with respect to the other two covenants, we executed a waiver that excludes these adjusted EBITDA-related covenants in their entirety for the second quarter of 2011.

We currently expect to be compliant with all other debt covenants through 2011. Additionally, we currently have cash balances that are in excess of the loan payable, which provides us with the ability to repay the outstanding principal in full at any time in the event of default or to prevent default.

## Table of Contents

The loan agreement also contains a variety of other customary affirmative and negative covenants that, among other things, limit us and our subsidiaries' ability to incur additional debt, suffer the creation of liens on their assets, pay dividends or repurchase stock, make investments or loans, sell assets, enter into transactions with affiliates other than on arm's length terms in the ordinary course of business, make capital expenditures, merge into or acquire other entities or liquidate. The negative covenants expressly permit us to, among other things: incur an additional \$15 million of debt to finance permitted investments or acquisitions; incur an additional \$15 million of earnout liabilities in connection with permitted acquisitions; spend up to \$30 million repurchasing our stock or paying dividends thereon (so long as no default or event of default existed at the time of or would result from such repurchase or dividend payment and we would be in pro forma compliance with the above-described financial covenants assuming such repurchase or dividend payment had occurred at the beginning of the most recently-ended four-quarter period); make investments and acquisitions (so long as no default or event of default existed at the time of or would result from such investment or acquisition and we would be in pro forma compliance with the above-described financial covenants assuming the acquisition or investment had occurred at the beginning of the most recently-ended four-quarter period); make up to \$15 million in capital expenditures in fiscal year 2008 and \$7.5 million in each subsequent fiscal year, provided that we can carry over any unspent amount to any subsequent fiscal year (but in no event may we make more than \$15 million in capital expenditures in any fiscal year); sell one of our investments (or any asset we might receive in conversion or exchange for such investment); and sell assets during the term of the loan comprising, in the aggregate, up to 10% of our consolidated shareholders' equity, provided we receive at least 75% of the consideration in cash.

### Cash Requirements

Our commitments consist primarily of leases for office facilities under operating lease agreements and principal repayments of our loan. Future minimum payments under our operating leases are included in Note 13, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements and are summarized in the table below:

| Contractual Obligations         | Payments due by period (in thousands) |                     |           |           |                         |        |
|---------------------------------|---------------------------------------|---------------------|-----------|-----------|-------------------------|--------|
|                                 | Total                                 | Less than<br>1 year | 1-3 years | 3-5 years | More<br>than<br>5 years | Other  |
| Long-Term Debt Obligations (1)  | \$ 9,000                              | \$ 1,500            | \$ 6,000  | \$ 1,500  | \$ —                    | \$ —   |
| Operating Lease Obligations (2) | 82,155                                | 13,985              | 28,277    | 23,576    | 16,317                  | —      |
| Unrecognized Tax Benefits (3)   | 295                                   | —                   | —         | —         | —                       | 295    |
| Total                           | \$ 91,450                             | \$ 15,485           | \$ 34,277 | \$ 25,076 | \$ 16,317               | \$ 295 |

- (1) Long-term debt obligations exclude interest payments. The interest rate on the outstanding principal balance is equal to a floating rate of 1-month LIBOR plus 2.85%.
- (2) Operating lease obligations are shown net of sublease income in this table. This table includes the future minimum payments under the current terms of the television production studio and administrative office operating lease which is currently being negotiated for renewal. See Note 13, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements for further discussion of operating leases.
- (3) These amounts represent expected payments with interest for uncertain tax positions as of December 31, 2010. We are not able to reasonably estimate the timing of future cash flows related to \$0.3 million of this liability, and therefore have presented this amount as "Other" in the table above. See Note 10, *Income Taxes*, in the Notes to Consolidated Financial Statements, for further discussion of income taxes.

In addition to our contractual obligations, in 2011, we expect to use approximately \$3.0 million in cash for 2011 capital expenditures due to continued upgrades to our corporate information technology, as well as the continued leasehold improvements to our office space.

---

## [Table of Contents](#)

### **OFF-BALANCE SHEET ARRANGEMENTS**

Our bylaws may require us to indemnify our directors and officers against liabilities that may arise by reason of their status as such and to advance their expenses incurred as a result of any legal proceedings against them as to which they could be indemnified.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

#### *General*

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, inventories, deferred production costs, long-lived assets and accrued losses. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that, of our significant accounting policies disclosed in this Annual Report on Form 10-K, the following may involve the highest degree of judgment and complexity.

#### *Revenue Recognition*

We recognize revenues when realized or realizable and earned. Revenues and associated accounts receivable are recorded net of provisions for estimated future returns, doubtful accounts and other allowances.

We participate in certain arrangements containing multiple deliverables. These arrangements generally consist of custom-created advertising programs delivered on multiple media platforms, as well as licensing programs which may also be supported by various promotional plans. Examples of significant program deliverables include print advertising pages in our publications, product integrations on our television and radio programs, and advertising impressions delivered on our website. Arrangements that were executed prior to January 1, 2010 are accounted for in accordance with the provisions of Accounting Standards Codification ("ASC") Topic 605, *Revenue Recognition* ("ASC 605"). Because we elected to early adopt, on a prospective basis, Financial Accounting Standards Board ("FASB") ASU No. 09-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force)* ("ASU 09-13"), arrangements executed on or after January 1, 2010 are subject to the new guidance. ASU 09-13 updates the existing multiple-element arrangement guidance in ASC 605.

The determination of units of accounting includes several criteria under both ASC 605 and ASU 09-13. Consistent with ASC 605, ASU 09-13 requires that we examine separate contracts with the same entity or related parties that are entered into or near the same time to determine if the arrangements should be considered a single arrangement in the determination of units of accounting. While both ASC 605 and ASU 09-13 require that units delivered have standalone value to the customer, ASU 09-13 modifies the separation criteria in determining units of accounting by eliminating the requirement to obtain objective and reliable evidence of the fair value of undelivered items. As a result of the elimination of this requirement, our significant program deliverables generally meet the separation criteria under ASU 09-13, whereas under ASC 605 they did not qualify as separate units of accounting.

For those arrangements accounted for under ASC 605, if we are unable to put forth objective and reliable evidence of the fair value of each deliverable, then we account for the deliverables as a combined unit of accounting rather than separate units of accounting. In this case, the arrangement fee is recognized as revenue as the earnings process is completed, generally over the fulfillment term of the last deliverable.

---

## [Table of Contents](#)

For those arrangements accounted for under ASU 09-13, we are required to allocate revenue based on the relative selling price of each deliverable which qualifies as a unit of accounting, even if such deliverables are not sold separately by us or other vendors. Determination of selling price is a judgmental process which requires numerous assumptions. The consideration is allocated at the inception of the arrangement to all deliverables based upon their relative selling prices. Selling prices for deliverables that qualify as separate units of accounting are determined using a hierarchy of: (1) vendor-specific objective evidence ("VSOE"), (2) third-party evidence, and (3) best estimate of selling price. We are able to establish VSOE of selling price for certain of our radio deliverables; however, in most instances we have allocated consideration based upon its best estimate of selling price. We established VSOE of selling price for certain radio deliverables by demonstrating that a substantial majority of the recent standalone sales of those deliverables are priced within a relatively narrow range. However, our other deliverables generally are priced with a wide range of discounts/premiums as the result of a variety of factors, including the size of the advertiser and the volume and placement of advertising sold to the advertiser. Our best estimate of selling price is intended to represent the price at which it would sell the deliverable if we were to sell the item regularly on a standalone basis. Our estimates consider market conditions, such as competitor pricing pressures, as well as entity-specific factors that are consistent with normal pricing practices, such as the recent history of the selling prices of similar products when sold on a standalone basis, the impact of the cost of customization, the size of the transaction, and other factors contemplated in negotiating the arrangement with the customer. The arrangement fee is recognized as revenue as the earnings process is completed, generally at the time each unit of accounting is fulfilled (*i.e.*, when magazines are on sale, at the time television integrations are aired or when the digital impressions are served).

Print advertising revenues are generally recorded upon the on-sale dates of the magazines and are stated net of agency commissions and cash and sales discounts. Subscription revenues are recognized on a straight-line basis over the life of the subscription as issues are delivered. Newsstand revenues are recognized based on estimates with respect to future returns and net of brokerage and newsstand-related fees. We base our estimates on our historical experience and current market conditions. Revenues earned from book publishing are recorded as manuscripts are delivered to and/or accepted by our publisher. Additional revenue is recorded as sales on a unit basis exceed the advanced royalty for the individual title or in certain cases, advances on cross-collateralized titles. Digital advertising revenues are generally based on the sale of impression-based advertisements, which are recorded in the period in which the advertisements are served.

Television advertising revenues for season 5 of *The Martha Stewart Show* in syndication were recognized when the related commercials were aired and were recorded net of agency commission and estimated reserves for television audience underdelivery. Television spot advertising for season 6 of *The Martha Stewart Show* is sold by Hallmark Channel, with net receipts payable to us quarterly. Since advertisers contract with Hallmark Channel directly, balance sheet reserves for television audience underdelivery are not required; however, revenues continue to be recognized when commercials are aired and are recorded net of agency commission and the impact of television audience underdelivery. Television integration revenues are recognized when the segment featuring the related product/brand immersion is initially aired. Television revenues related to Emeril Lagasse are generally recognized when services are performed, regardless of when the episodes air. Licensing revenues are recorded as earned in accordance with the specific terms of each agreement and are generally recognized upon delivery of the episodes to the licensee, provided that the license period has begun. Throughout 2010, we executed several agreements with Hallmark Channel, certain of which are combined as one arrangement. The agreements with Hallmark Channel are accounted for under the guidance set forth in ASC 926, *Entertainment – Films*. Radio advertising revenues are generally recorded when the related commercials are aired and are recorded net of agency commissions. Licensing revenues from our radio programming are recorded on a straight-line basis over the term of the agreement.

Licensing-based revenues, most of which are in our Merchandising segment, are accrued on a monthly basis based on the specific mechanisms of each contract. Payments are generally made by our partners on a quarterly basis. Generally, revenues are accrued based on actual sales, while any minimum guarantees are earned evenly over the fiscal year. Revenues related to our agreement with Kmart had been recorded on a monthly basis based on actual

---

## [Table of Contents](#)

retail sales, until the last period of the year, when we recognized a substantial majority of the true-up between the minimum royalty amount and royalties paid on actual sales. Not recognizing revenue until the fourth quarter was originally driven in large part by concern about whether the collectability of the minimums was reasonably assured in the wake of the Kmart Chapter 11 filing. Concern about the collectability persisted in subsequent years due to difficulties in the relationship with Kmart and numerous store closings that caused royalties to fall short of the minimums. Accordingly, the true-up payment was recorded in the fourth quarter at the time the true-up amounts were known and subsequently collected. Our Kmart agreement ended in January 2010.

We maintain reserves for all segment receivables, as appropriate. These reserves are adjusted regularly based upon actual results. Allowances for uncollectible receivables are estimated based upon a combination of write-off history, aging analysis and any specific, known troubled accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be required.

### *Television Production Costs*

Television production costs are capitalized and amortized based upon estimates of future revenues to be received and future costs to be incurred for the applicable television product. We base our estimates primarily on existing contracts for programs, historical advertising rates and ratings, as well as market conditions. Estimated future revenues and costs are adjusted regularly based upon actual results and changes in market and other conditions.

### *Goodwill and Indefinite-Lived Intangible Assets*

We are required to analyze our goodwill and other intangible assets on an annual basis, as well as when events and circumstances indicate impairment may have occurred. Unforeseen events and changes in circumstances and market conditions and material differences in the value of long-lived assets due to changes in estimates could negatively affect the fair value of our assets and result in an impairment charge. In estimating fair value, we must make assumptions and projections regarding items such as future cash flows, future revenues, future earnings and other factors. The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. If these estimates or their related assumptions change in the future, we may be required to record an impairment loss for any of our intangible assets. Had the estimated fair values of each of these reporting units been hypothetically lower by 10% as of our annual testing date, the fair values of the reporting units would have exceeded their respective carrying values. Had the estimated fair values of each of these reporting units been hypothetically lower by 20% as of our annual testing date, the fair value of one of our reporting units would not have exceeded its respective carrying value, which could result in an impairment charge of less than \$1.0 million. The recording of any resulting impairment loss could have a material adverse effect on our financial statements.

### *Long-Lived and Finite-Lived Intangible Assets*

We review the carrying values of our long-lived assets whenever events or changes in circumstances indicate that such carrying values may not be recoverable. Unforeseen events and changes in circumstances and market conditions and material differences in the value of long-lived assets due to changes in estimates of future cash flows could negatively affect the fair value of our assets and result in an impairment charge, which could have a material adverse effect on our financial statements. We have a finite-lived intangible asset related to the purchase of the library of Emeril Lagasse television content. The unamortized portion of this finite-lived intangible asset was \$1.3 million as of December 31, 2010. If we were unable to further derive revenues from this television content library, then the finite-lived intangible asset would be subject to accelerated amortization of up to \$1.3 million.

### *Deferred Income Tax Asset Valuation Allowance*

We record a valuation allowance to reduce our deferred income tax assets to the amount that is more likely than not to be realized. In evaluating our ability to recover our deferred income tax assets, we consider all

---

## [Table of Contents](#)

available positive and negative evidence, including our operating results, ongoing tax planning and forecasts of future taxable income on a jurisdiction by jurisdiction basis. Our cumulative pre-tax loss in recent years represents sufficient negative evidence for us to determine that the establishment of a full valuation allowance against the deferred tax asset is appropriate. This valuation allowance offsets net deferred tax assets associated with future tax deductions, as well as carryforward items. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes. See Note 10, *Income Taxes*, in the Notes to Consolidated Financial Statements for additional information.

### *Non-Cash Equity Compensation*

We currently have a stock incentive plan that permits us to grant various types of share-based incentives to key employees, directors and consultants. The primary types of incentives that have been granted under the plan are restricted shares of common stock, restricted stock unit awards and stock options. Restricted shares are valued at the market value of traded shares on the date of grant. Other than performance-based shares tied to the market price of our Class A common stock, performance-based awards are accrued as compensation expense based on the probable outcome of the performance condition, consistent with requirements of ASC Topic 718, *Compensation - Stock Compensation*. Stock options are valued using a Black-Scholes option pricing model. The Black-Scholes option pricing model requires numerous assumptions, including expected volatility of our stock price and expected life of the option.

### **Item 7A. *Quantitative and Qualitative Disclosure about Market Risk.***

We are exposed to certain market risks as the result of our use of financial instruments, in particular the potential market value loss arising from adverse changes in interest rates as well as from adverse changes in our publicly traded investment. We do not utilize financial instruments for trading purposes.

### *Interest Rates*

We are exposed to market rate risk due to changes in interest rates on our loan agreement with Bank of America that we entered into on April 2, 2008 under which we borrowed \$30.0 million to fund a portion of the acquisition of certain assets of Emeril Lagasse. Interest rates applicable to amounts outstanding under this facility are at variable rates based on the 1-month LIBOR rate plus 2.85%. A change in interest rates on this variable rate debt impacts the interest incurred and cash flows but does not impact the fair value of the instrument. We had outstanding borrowings of \$9.0 million on the term loan at December 31, 2010 at an average rate of 3.12% for the year. A one percentage point increase in the interest rate would have increased interest expense by \$0.1 million for 2010.

We also have exposure to market rate risk for changes in interest rates as those rates relate to our investment portfolio. The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. We attempt to protect and preserve our invested funds by limiting default, market and reinvestment risk. To achieve this objective, we invest our excess cash in debt instruments of the United States Government and its agencies and in high-quality corporate issuers (including bank instruments and money market funds) and, by internal policy, limit both the term and amount of credit exposure to any one issuer. As of December 31, 2010, net unrealized gains and losses on these investments were not material. However, in 2010, we recorded approximately \$0.6 million in interest income. Our future investment income may fluctuate due to changes in interest rates, or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates.

### **Item 8. *Financial Statements and Supplementary Data.***

The information required by this Item is set forth on pages F-1 through F-32 of this Annual Report on Form 10-K and is incorporated by reference herein.

---

## [Table of Contents](#)

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

### **Item 9A. Controls and Procedures.**

#### *Evaluation of Disclosure Controls and Procedures*

Under the supervision and with the participation of our management, including our Principal Executive Officer and our Principal Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures (as defined in the Rules 13a-15(e) and 15d-15(e) under the Exchange Act required by Exchange Act Rules 13a-15(b) or 15d-15(e)), as of the end of the period covered by this report. Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of that date to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including the Principal Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

#### *Management's Report on Internal Control Over Financial Reporting*

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our Principal Executive Officer and Principal Financial Officer concluded that our internal control over financial reporting was effective to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with United States generally accepted accounting principles.

Our independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on our internal control over financial reporting. The attestation report is included herein.

#### *Evaluation of Changes in Internal Control Over Financial Reporting*

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we have determined that, during the fourth quarter of fiscal 2010, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

---

[Table of Contents](#)

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Martha Stewart Living Omnimedia, Inc.

We have audited Martha Stewart Living Omnimedia, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Martha Stewart Living Omnimedia, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Martha Stewart Living Omnimedia, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive loss, and cash flows for each of the three years in the period ended December 31, 2010 and our report dated March 14, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young  
New York, New York  
March 14, 2011

---

[Table of Contents](#)

**Item 9B. Other Information.**

Although we did not achieve the adjusted EBITDA (*i.e.*, consolidated income (loss) before interest income or expense, taxes, depreciation and amortization, impairment, non-cash compensation expense and other expense) target provided under the Martha Stewart Living Omnimedia, Inc. Annual Incentive Plan for 2010, the Compensation Committee considered the recommendation of management to acknowledge employee efforts in an environment that continued to be challenging by making discretionary recognition awards. These payments included recognition awards to certain of the named executive officers, as an acknowledgement of their leadership and contributions during 2010 and for further retention and motivational purposes, as follows: Robin Marino, \$50,000; Kelli Turner, \$40,000; and Peter Hurwitz, \$35,000.

[Table of Contents](#)

**PART III**

**Item 10. Directors, Executive Officers and Corporate Governance.**

The information required by this Item is set forth in our Proxy Statement for our 2011 annual meeting of stockholders (our "Proxy Statement") under the captions "**PROPOSAL 1 – ELECTION OF DIRECTORS** — Information Concerning Nominees," "**INFORMATION CONCERNING EXECUTIVE OFFICERS**," "**MEETINGS AND COMMITTEES OF THE BOARD** — Code of Ethics" and " — Audit Committee," and "**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**" and is hereby incorporated herein by reference.

**Item 11. Executive Compensation.**

The information required by this Item is set forth in our Proxy Statement under the captions "**MEETINGS AND COMMITTEES OF THE BOARD** — Compensation Committee Interlocks and Insider Participation," "**COMPENSATION OF OUTSIDE DIRECTORS**," "**DIRECTOR COMPENSATION TABLE**," "**COMPENSATION COMMITTEE REPORT**," "**COMPENSATION DISCUSSION AND ANALYSIS**," "**SUMMARY COMPENSATION TABLE**," "**GRANTS OF PLAN-BASED AWARDS IN 2010**," "**EXECUTIVE COMPENSATION AGREEMENTS**," "**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2010**," "**OPTION EXERCISES AND STOCK VESTED DURING 2010**," and "**POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL**" and is hereby incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.**

The information required by this Item regarding beneficial ownership of our equity securities is set forth in our Proxy Statement under the caption "**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**" and is hereby incorporated herein by reference.

**Equity Compensation Plan Information**

The following table sets forth certain information regarding our equity compensation plans as of December 31, 2010.

**EQUITY COMPENSATION PLAN INFORMATION**

| <b>Plan Category</b>  | <b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</b> | <b>Weighted-Exercise Price of Outstanding Options, Warrants and Rights</b> | <b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))</b> |
|---|--|--|--|
|   | <b>(a)</b>   | <b>(b)</b>   | <b>(c)</b>   |
| Equity Compensation plans approved by security holders:     | 8,241,776(1)   | \$ 7.16  | 3,427,476(2)   |
| Equity Compensation plans not approved by security holders: | 416,667(3)   | \$ 12.59   | n/a  |
| <b>Total</b>  | <b>8,658,443</b>   | <b>n/a</b>   | <b>n/a</b>   |

- (1) Includes 720,000 restricted stock units and 200,000 performance-based shares. The weighted average exercise price reported in column (b) does not take these awards into account.

---

[Table of Contents](#)

- (2) Represents shares available for grant under the Martha Stewart Living Omnimedia Omnibus Stock and Option Compensation Plan.
- (3) Represents the remainder of a warrant issued in connection with a consulting agreement in August 2006; the shares became fully vested in July 2007. See Note 9, *Employee and Non-Employee Benefit and Compensation Plans*, in the Notes to Consolidated Financial Statements.

**Item 13. *Certain Relationships and Related Transactions, and Director Independence.***

The information required by this Item is set forth in our Proxy Statement under the caption "**CERTAIN RELATIONSHIPS AND RELATED PERSON TRANSACTIONS**" and "**MEETING AND COMMITTEES OF THE BOARD** — Corporate Governance" and is hereby incorporated herein by reference.

**Item 14. *Principal Accountant Fees and Services.***

The information required by this Item is set forth in our Proxy Statement under the caption "**INDEPENDENT PUBLIC ACCOUNTANTS**" and is hereby incorporated herein by reference.

---

[Table of Contents](#)

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules.**

(a) (1) and (2) Financial Statements and Schedules: See page F-1 of this Annual Report on Form 10-K.

(3) Exhibits:

**Exhibit**

**Number**

**Exhibit Title**

|         |   |   |
|---------|---|---|
| 3.1     | — | Martha Stewart Living Omnimedia, Inc.'s Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1, |
| 3.2     | — | Martha Stewart Living Omnimedia, Inc.'s By-Laws (incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q (file number 001-1539      |
| 4.1     | — | Warrant to purchase shares of Class A Common Stock, dated August 11, 2006 (incorporated by reference to Exhibit 4.2 to our Quarterly Report on Form 10    |
| 10.1†   | — | 1999 Stock Incentive Plan (incorporated by reference to the Registration Statement), as amended by Exhibits 10.1.1, 10.1.2 and 10.1.3.                    |
| 10.1.1† | — | Amendment No. 1 to the 1999 Stock Incentive Plan, dated as of March 9, 2000 (incorporated by reference to our Annual Report on Form 10-K for the year     |
| 10.1.2† | — | Amendment No. 2 to the Amended and Restated 1999 Stock Incentive Plan, dated as of May 11, 2000 (incorporated by reference to our Quarterly Report o      |
| 10.1.3† | — | Amendment No. 3 to the Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to our Current Report on Form 8-K filed on May 17        |
| 10.2†   | — | 1999 Non-Employee Director Stock and Option Compensation Plan (incorporated by reference to the Registration Statement) as amended by Exhibit 10.2.       |
| 10.2.1† | — | Amendment No. 1 to the Martha Stewart Living Omnimedia, Inc. Non-Employee Director Stock and Option Compensation Plan (incorporated by reference          |
| 10.3    | — | Form of Intellectual Property License and Preservation Agreement, dated as of October 22, 1999, by and between Martha Stewart Living Omnimedia, Inc.      |
| 10.4†   | — | Director Compensation Program (incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K (file number 001-15395) for the year end      |
| 10.5†   | — | Employment Agreement, dated as of September 17, 2008, between Martha Stewart Living Omnimedia, Inc. and Charles A. Koppelman (incorporated by re          |
| 10.5.1† | — | Amendment dated as of October 29, 2010 to the Employment Agreement, dated as of September 17, 2008, between Martha Stewart Living Omnimedia, Inc.         |

---

## [Table of Contents](#)

### Exhibit

#### Number

#### Exhibit Title

|         |   |  |
|---------|---|--|
| 10.6    | — | Lease, dated August 20, 1999, between 601 West Associates LLC and Martha Stewart Living Omnimedia LLC (incorporated by reference to Exhibit 10.12)   |
| 10.6.1  | — | First Lease Modification Agreement, dated December 24, 1999, between 601 West Associates LLC and Martha Stewart Living Omnimedia, Inc. (incorporated by reference to Exhibit 10.12)  |
| 10.6.2  | — | Sixth Lease Modification Agreement, dated as of June 14, 2007, between 601 West Associates LLC and Martha Stewart Living Omnimedia, Inc. (incorporated by reference to Exhibit 10.12)                                      |
| 10.7    | — | Lease, dated as of October 1, 2000, between Newtown Group Properties Limited Partnership and Martha Stewart Living Omnimedia, Inc. (incorporated by reference to Exhibit 10.12)  |
| 10.8†   | — | Employment Agreement, dated as of September 17, 2008, between Martha Stewart Living Omnimedia, Inc. and Robin Marino (incorporated by reference to Exhibit 10.12)  |
| 10.9†   | — | Letter Agreement, dated as of September 1, 2009, between Martha Stewart Living Omnimedia, Inc. and Peter Hurwitz (incorporated by reference to Exhibit 10.12)  |
| 10.10†  | — | Amended and Restated Employment Agreement, dated as of April 1, 2009, between Martha Stewart Living Omnimedia, Inc. and Martha Stewart (incorporated by reference to Exhibit 10.12)  |
| 10.11   | — | Intangible Asset License Agreement, dated as of June 13, 2008, between Martha Stewart Living Omnimedia, Inc. and MS Real Estate Management Company (incorporated by reference to Exhibit 10.12)                            |
| 10.11.1 | — | First Amendment, dated as of December, 2008, to the Intangible Asset License Agreement between MS Real Estate Management Company and Martha Stewart Living Omnimedia, Inc. (incorporated by reference to Exhibit 10.12)    |
| 10.11.2 | — | Second Amendment, dated as of February 8, 2010, to the Intangible Asset License Agreement between MS Real Estate Management Company and Martha Stewart Living Omnimedia, Inc. (incorporated by reference to Exhibit 10.12) |
| 10.12†  | — | Employment Agreement, dated as of March 24, 2009, between Martha Stewart Living Omnimedia, Inc. and Kelli Turner (incorporated by reference to Exhibit 10.12)  |
| 10.13†  | — | 2005 Executive Severance Pay Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (file number 001-15395) filed on January 14, 2005)  |
| 10.14†  | — | Form of Restricted Stock Award Agreement for use under the Martha Stewart Living Omnimedia, Inc. Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.12)                               |

---

## [Table of Contents](#)

### Exhibit

#### Number

#### Exhibit Title

|         |   |   |
|---------|---|---|
| 10.15†  | — | Registration Rights Agreement between Charles A. Koppelman and Martha Stewart Living Omnimedia, Inc. dated January 24, 2005 (incorporated by reference to Exhibit 10.15 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended March 31, 2005).       |
| 10.16   | — | Warrant Registration Rights Agreement, dated as of August 11, 2006, between Martha Stewart Living Omnimedia, Inc. and Mark Burnett (incorporated by reference to Exhibit 10.16 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended June 30, 2006). |
| 10.17†  | — | Form of Restricted Stock Unit Award Agreement under the Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended March 31, 2005).                             |
| 10.18†  | — | 2008 Executive Severance Pay Plan (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended March 31, 2008).  |
| 10.19   | — | Publicity Rights Agreement, dated as of April 2, 2008, by and among Martha Stewart Living Omnimedia, Inc., MSLO Shared IP Sub LLC and Emeril J. Lachance.   |
| 10.20** | — | Amended and Restated Loan Agreement, dated as of August 7, 2009, by and among Bank of America, N.A., MSLO Emeril Acquisition Sub LLC and Martha Stewart Living Omnimedia, Inc.  |
| 10.20.1 | — | Waiver and Amendment to Loan Documents, dated as of December 18, 2009, to Amended and Restated Loan Agreement dated as of August 7, 2009 among Bank of America, N.A., MSLO Emeril Acquisition Sub LLC and Martha Stewart Living Omnimedia, Inc.                                   |
| 10.20.2 | — | Waiver dated as of November 1, 2010, to the Amended and Restated Loan Agreement, dated as of August 7, 2009, by and among Bank of America, N.A., MSLO Emeril Acquisition Sub LLC and Martha Stewart Living Omnimedia, Inc.  |
| 10.21   | — | Security Agreement, dated as of July 31, 2008, among Martha Stewart Living Omnimedia, Inc., MSLO Emeril Acquisition Sub LLC, and Bank of America, N.A.  |
| 10.21.1 | — | Waiver and Omnibus Amendment No. 1, dated as of June 18, 2009, to Loan Agreement dated as of April 4, 2008 by and among Bank of America, N.A., MSLO Emeril Acquisition Sub LLC and Martha Stewart Living Omnimedia, Inc.  |
| 10.21.2 | — | Amendment No. 2, dated as of August 7, 2009, to Security Agreement dated as of July 31, 2008 among Martha Stewart Living Omnimedia, Inc., Emeril Acquisition Sub LLC and Bank of America, N.A.  |
| 10.22   | — | Continuing and Unconditional Guaranty dated as of April 4, 2008 executed by Martha Stewart Living Omnimedia, Inc., MSO IP Holdings, Inc., Martha Stewart Living Omnimedia, Inc.   |

---

## [Table of Contents](#)

| <b>Exhibit</b> |  |
|----------------|--|
| <b>Number</b>  | <b>Exhibit Title</b>   |
| 10.22.1        | — Reaffirmation of Guaranty, dated as of August 7, 2009, executed by Martha Stewart Living Omnimedia, Inc., MSO IP Holdings, Inc., Martha Stewart, Inc.  |
| 10.23          | — Registration Rights Agreement, dated as of April 2, 2008, by and among Martha Stewart Living Omnimedia, Inc., Emeril's Food of Love Productions, L.L.C.  |
| 10.24†         | — Martha Stewart Living Omnimedia, Inc. Director Deferral Plan (incorporated by reference to Exhibit 10.46 to our Annual Report on Form 10-K (file number 000-1029303-08-000010))  |
| 10.25†         | — Martha Stewart Living Omnimedia, Inc. Non-Employee Director Stock and Option Compensation Plan Deferral Election Form dated July 1, 2004 and Clarification   |
| 10.26†         | — Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan (incorporated by reference to Exhibit 99.1 to our Current Report on Form 10-K)  |
| 10.27†         | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Option Agreement and forms of related Notices (incorporated by reference to Exhibit 99.2 to our Current Report on Form 10-K)            |
| 10.28†*        | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Unit Agreement.  |
| 10.29†         | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Grant Agreement (incorporated by reference to Exhibit 99.3 to our Current Report on Form 10-K)                               |
| 10.30†         | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Appreciation Right Agreement and form of related Notices (incorporated by reference to Exhibit 99.4 to our Current Report on Form 10-K) |
| 10.31†         | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Grant Agreement and form of related Acknowledgments (incorporated by reference to Exhibit 99.5 to our Current Report on Form 10-K)      |
| 10.32†         | — Form of Performance-Based Restricted Stock Unit Agreement pursuant to the Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan   |
| 10.33†         | — Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Grant Agreement dated October 1, 2008 between the Company and its directors and executive officers                                   |
| 10.34†         | — Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Option Grant Agreement and form of related Notice dated October 1, 2008 between the Company and its directors and executive officers            |

---

## [Table of Contents](#)

### Exhibit

#### Number

#### Exhibit Title

---

|        |   |  |
|--------|---|--|
| 10.35† | — | Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Grant Agreement dated October 1, 2008 between          |
| 10.36† | — | Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Option Grant Agreement and form of related Notice dated O         |
| 10.37† | — | Martha Stewart Living Omnimedia, Inc. Annual Incentive Plan (incorporated by reference to the Company's proxy statement filed in respect of its 2005 ann |
| 21*    | — | List of Subsidiaries.  |
| 23.1*  | — | Consent of Independent Registered Public Accounting Firm.  |
| 31.1*  | — | Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2*  | — | Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32*    | — | Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                  |

---

† indicates management contracts and compensatory plans

\* indicates filed herewith

\*\* Schedules and exhibits to this Agreement have been omitted. The Company agrees to furnish a supplemental copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request.

---

[Table of Contents](#)

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: March 14, 2011

MARTHA STEWART LIVING OMNIMEDIA, INC.

By:           /s/ Charles Koppelman          

---

Charles A. Koppelman  
*Principal Executive Officer & Executive  
Chairman of the Board*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

| <u>Signature</u>                                     | <u>Capacity</u>  |
|--|--|
| <u>/s/ Charles Koppelman</u><br>Charles A. Koppelman | Principal Executive Officer & Executive<br>Chairman of the Board |
| <u>/s/ Allison Jacques</u><br>Allison Jacques        | Principal Financial and Accounting Officer                       |
| <u>/s/ Charlotte Beers</u><br>Charlotte Beers        | Director   |
| <u>/s/ Arlen Kantarian</u><br>Arlen Kantarian        | Director   |
| <u>/s/ William Roskin</u><br>William A. Roskin       | Director   |
| <u>/s/ Claudia Slacik</u><br>Claudia Slacik          | Director   |
| <u>/s/ Todd Slotkin</u><br>Todd Slotkin              | Director   |
| <u>/s/ Frederic Fekkai</u><br>Frederic Fekkai        | Director   |

Each of the above signatures is affixed as of March 14, 2011.

---

[Table of Contents](#)

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS,  
FINANCIAL STATEMENT SCHEDULES AND OTHER  
FINANCIAL INFORMATION**

Consolidated Financial Statements:

|  |      |
|--|------|
| <a href="#">Report of Independent Registered Public Accounting Firm</a>  | F-2  |
| <a href="#">Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008</a>                                   | F-3  |
| <a href="#">Consolidated Balance Sheets at December 31, 2010 and 2009</a>  | F-4  |
| <a href="#">Consolidated Statements of Shareholders' Equity and Comprehensive Loss for the years ended December 31, 2010, 2009, and 2008</a> | F-5  |
| <a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009, and 2008</a>                                  | F-6  |
| <a href="#">Notes to Consolidated Financial Statements</a>   | F-7  |
| <a href="#">Financial Statement Schedule II — Valuation and Qualifying Accounts for the years ended December 31, 2010, 2009 and 2008</a>     | F-32 |

All other schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

---

[Table of Contents](#)

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Martha Stewart Living Omnimedia, Inc.:

We have audited the accompanying consolidated balance sheets of Martha Stewart Living Omnimedia, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, shareholders' equity and comprehensive loss, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Martha Stewart Living Omnimedia, Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Martha Stewart Living Omnimedia Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 14, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young  
New York, New York  
March 14, 2011

[Table of Contents](#)

**MARTHA STEWART LIVING OMNIMEDIA, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**For the Years Ended December 31, 2010, 2009 and 2008**  
**(in thousands except share and per share data)**

|   | 2010              | 2009               | 2008               |
|---|-------------------|--------------------|--------------------|
| <b>REVENUES</b>                                   |                   |                    |                    |
| Publishing  | \$ 145,573        | \$ 146,100         | \$ 179,116         |
| Broadcasting                                      | 42,434            | 46,111             | 47,328             |
| Merchandising                                     | 42,806            | 52,566             | 57,866             |
| <b>Total revenues</b>                             | <u>230,813</u>    | <u>244,777</u>     | <u>284,310</u>     |
| <b>OPERATING COSTS AND EXPENSES</b>               |                   |                    |                    |
| Production, distribution and editorial            | 124,235           | 121,522            | 136,709            |
| Selling and promotion                             | 60,288            | 59,333             | 71,504             |
| General and administrative                        | 50,321            | 56,584             | 69,632             |
| Depreciation and amortization                     | 4,632             | 7,874              | 7,973              |
| Impairment charge — goodwill                      | —                 | —                  | 8,849              |
| Impairment charge — other asset                   | —                 | 11,432             | 500                |
| <b>Total operating costs and expenses</b>         | <u>239,476</u>    | <u>256,745</u>     | <u>295,167</u>     |
| <b>OPERATING LOSS</b>                             | (8,663)           | (11,968)           | (10,857)           |
| <b>OTHER (EXPENSE)/INCOME</b>                     |                   |                    |                    |
| Interest (expense)/income, net                    | (66)              | (101)              | 490                |
| Loss on sale of fixed asset                       | (647)             | —                  | —                  |
| Gain on sale of short-term investments            | 1,512             | 330                | —                  |
| Loss on equity securities                         | (15)              | (877)              | (2,221)            |
| Other loss  | —                 | (236)              | (763)              |
| <b>Total other income / (expense)</b>             | <u>784</u>        | <u>(884)</u>       | <u>(2,494)</u>     |
| <b>LOSS BEFORE INCOME TAXES</b>                   | (7,879)           | (12,852)           | (13,351)           |
| Income tax provision                              | (1,717)           | (1,726)            | (2,314)            |
| <b>NET LOSS</b>                                   | <u>\$ (9,596)</u> | <u>\$ (14,578)</u> | <u>\$ (15,665)</u> |
| <b>LOSS PER SHARE</b>                             |                   |                    |                    |
| Basic and diluted                                 | <u>\$ (0.18)</u>  | <u>\$ (0.27)</u>   | <u>\$ (0.29)</u>   |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b> |                   |                    |                    |
| Basic and diluted                                 | 54,440,490        | 53,879,785         | 53,359,538         |

The accompanying notes are an integral part of these consolidated financial statements.

[Table of Contents](#)

**MARTHA STEWART LIVING OMNIMEDIA, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2010 and 2009**  
(in thousands except share and per share data)

|   | 2010              | 2009              |
|---|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   |
| <b>CURRENT ASSETS</b>   |                   |                   |
| Cash and cash equivalents   | \$ 23,204         | \$ 25,384         |
| Short-term investments  | 10,091            | 13,085            |
| Accounts receivable, net  | 59,250            | 56,364            |
| Inventory   | 5,309             | 5,166             |
| Deferred television production costs  | 2,413             | 3,788             |
| Other current assets  | 4,772             | 5,709             |
| <b>Total current assets</b>   | <u>105,039</u>    | <u>109,496</u>    |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>   | 14,507            | 17,268            |
| <b>GOODWILL, net</b>  | 45,107            | 45,107            |
| <b>OTHER INTANGIBLE ASSETS, net</b>   | 46,547            | 47,070            |
| <b>OTHER NONCURRENT ASSETS, net</b>   | 11,114            | 10,850            |
| <b>Total assets</b>   | <u>\$ 222,314</u> | <u>\$ 229,791</u> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                   |                   |
| <b>CURRENT LIABILITIES</b>  |                   |                   |
| Accounts payable and accrued liabilities  | \$ 30,062         | \$ 26,752         |
| Accrued payroll and related costs   | 6,541             | 7,495             |
| Current portion of deferred subscription revenue  | 18,734            | 18,587            |
| Current portion of other deferred revenue   | 4,732             | 4,716             |
| Current portion loan payable  | 1,500             | —                 |
| <b>Total current liabilities</b>  | <u>61,569</u>     | <u>57,550</u>     |
| <b>DEFERRED SUBSCRIPTION REVENUE</b>  | 4,529             | 5,672             |
| <b>OTHER DEFERRED REVENUE</b>   | 1,413             | 2,759             |
| <b>LOAN PAYABLE</b>   | 7,500             | 13,500            |
| <b>DEFERRED INCOME TAX LIABILITY</b>  | 4,527             | 3,200             |
| <b>OTHER NONCURRENT LIABILITIES</b>   | 3,743             | 3,290             |
| <b>Total liabilities</b>  | <u>83,281</u>     | <u>85,971</u>     |
| <b>COMMITMENTS AND CONTINGENCIES</b>  |                   |                   |
| <b>SHAREHOLDERS' EQUITY</b>   |                   |                   |
| Class A Common Stock, \$.01 par value, 350,000,000 shares authorized; 28,753,212 and 28,312,997 shares outstanding in 2010 and 2009, respectively | 288               | 283               |
| Class B Common Stock, \$.01 par value, 150,000,000 shares authorized; 26,317,960 and 26,690,125 shares outstanding in 2010 and 2009               | 263               | 267               |
| Capital in excess of par value  | 295,576           | 290,387           |
| Accumulated deficit   | (156,201)         | (146,605)         |
| Accumulated other comprehensive (loss) / income   | (118)             | 263               |
|   | <u>139,808</u>    | <u>144,595</u>    |
| Less Class A treasury stock — 59,400 shares at cost   | (775)             | (775)             |
| <b>Total shareholders' equity</b>   | <u>139,033</u>    | <u>143,820</u>    |
| <b>Total liabilities and shareholders' equity</b>   | <u>\$ 222,314</u> | <u>\$ 229,791</u> |

The accompanying notes are an integral part of these consolidated financial statements.

[Table of Contents](#)

**MARTHA STEWART LIVING OMNIMEDIA, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS**  
**For the Years Ended December 31, 2010, 2009 and 2008**  
**(in thousands)**

|   | Class A<br>Common Stock |               | Class B<br>Common Stock |               | Capital in<br>excess of<br>par value | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Income/(Loss) | Class A<br>Treasury Stock |                 | Total            |
|---|-------------------------|---------------|-------------------------|---------------|--------------------------------------|------------------------|--|---------------------------|-----------------|------------------|
|   | Shares                  | Amount        | Shares                  | Amount        |                                      |                        |  | Shares                    | Amount          |                  |
| <b>Balance at January 1, 2008</b>   | <b>26,738</b>           | <b>\$ 267</b> | <b>26,722</b>           | <b>\$ 267</b> | <b>\$ 272,132</b>                    | <b>\$ (116,362)</b>    | <b>\$ —</b>  | <b>(59)</b>               | <b>\$ (775)</b> | <b>\$155,529</b> |
| Net loss  | —                       | —             | —                       | —             | —                                    | (15,665)               | —  | —                         | —               | (15,665)         |
| Other comprehensive income:   |                         |               |                         |               |                                      |                        |  |                           |                 |                  |
| Unrealized loss on investment   | —                       | —             | —                       | —             | —                                    | —                      | (1,129)  | —                         | —               | (1,129)          |
| Realized loss on investment   | —                       | —             | —                       | —             | —                                    | —                      | 1,129  | —                         | —               | 1,129            |
| Total comprehensive loss  | —                       | —             | —                       | —             | —                                    | —                      | —  | —                         | —               | (15,665)         |
| Shares returned on net treasury basis   | —                       | —             | (32)                    | —             | —                                    | —                      | —  | —                         | —               | —                |
| Issuance of shares in conjunction with stock options exercises                              | 6                       | —             | —                       | —             | 44                                   | —                      | —  | —                         | —               | 44               |
| Issuance of shares of stock and restricted stock, net of cancellations and tax withholdings | 1,460                   | 15            | —                       | —             | 3,113                                | —                      | —  | —                         | —               | 3,128            |
| Non-cash equity compensation  | —                       | —             | —                       | —             | 7,959                                | —                      | —  | —                         | —               | 7,959            |
| <b>Balance at December 31, 2008</b>   | <b>28,204</b>           | <b>282</b>    | <b>26,690</b>           | <b>267</b>    | <b>283,248</b>                       | <b>(132,027)</b>       | <b>—</b>   | <b>(59)</b>               | <b>(775)</b>    | <b>150,995</b>   |
| Comprehensive loss:   |                         |               |                         |               |                                      |                        |  |                           |                 |                  |
| Net loss  | —                       | —             | —                       | —             | —                                    | (14,578)               | —  | —                         | —               | (14,578)         |
| Other comprehensive loss:   |                         |               |                         |               |                                      |                        |  |                           |                 |                  |
| Unrealized gain on investment   | —                       | —             | —                       | —             | —                                    | —                      | 263  | —                         | —               | 263              |
| Total comprehensive loss  | —                       | —             | —                       | —             | —                                    | —                      | —  | —                         | —               | (14,315)         |
| Issuance of shares in conjunction with stock options exercises                              | 10                      | —             | —                       | —             | 70                                   | —                      | —  | —                         | —               | 70               |
| Issuance of shares of stock and restricted stock, net of cancellations and tax withholdings | 99                      | 1             | —                       | —             | (558)                                | —                      | —  | —                         | —               | (557)            |
| Non-cash equity compensation  | —                       | —             | —                       | —             | 7,627                                | —                      | —  | —                         | —               | 7,627            |
| <b>Balance at December 31, 2009</b>   | <b>28,313</b>           | <b>283</b>    | <b>26,690</b>           | <b>267</b>    | <b>290,387</b>                       | <b>(146,605)</b>       | <b>263</b>   | <b>(59)</b>               | <b>(775)</b>    | <b>143,820</b>   |
| Comprehensive loss:   |                         |               |                         |               |                                      |                        |  |                           |                 |                  |
| Net loss  | —                       | —             | —                       | —             | —                                    | (9,596)                | —  | —                         | —               | (9,596)          |
| Other comprehensive income:   |                         |               |                         |               |                                      |                        |  |                           |                 |                  |
| Unrealized gain on investment, net  | —                       | —             | —                       | —             | —                                    | —                      | 1,131  | —                         | —               | 1,131            |
| Realized gain on investment   | —                       | —             | —                       | —             | —                                    | —                      | (1,512)  | —                         | —               | (1,512)          |
| Total comprehensive loss  | —                       | —             | —                       | —             | —                                    | —                      | —  | —                         | —               | (9,977)          |
| Conversion of shares  | 372                     | 4             | (372)                   | (4)           | —                                    | —                      | —  | —                         | —               | —                |
| Issuance of shares in conjunction with stock options exercises                              | 142                     | 2             | —                       | —             | 293                                  | —                      | —  | —                         | —               | 295              |
| Issuance of shares of stock and restricted stock, net of cancellations and tax withholdings | (74)                    | (1)           | —                       | —             | (460)                                | —                      | —  | —                         | —               | (461)            |
| Non-cash equity compensation  | —                       | —             | —                       | —             | 5,356                                | —                      | —  | —                         | —               | 5,356            |
| <b>Balance at December 31, 2010</b>   | <b>28,753</b>           | <b>\$ 288</b> | <b>26,318</b>           | <b>\$ 263</b> | <b>\$ 295,576</b>                    | <b>\$ (156,201)</b>    | <b>\$ (118)</b>  | <b>(59)</b>               | <b>\$ (775)</b> | <b>\$139,033</b> |

The accompanying notes are an integral part of these consolidated financial statements.

[Table of Contents](#)

**MARTHA STEWART LIVING OMNIMEDIA, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2010, 2009 and 2008**  
**(in thousands)**

|   | 2010             | 2009             | 2008             |
|---|------------------|------------------|------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                  |                  |                  |
| Net loss  | \$ (9,596)       | \$ (14,578)      | \$ (15,665)      |
| Adjustments to reconcile net loss to net cash provided by/(used in) operating activities: |                  |                  |                  |
| Non-cash revenue  | (4,685)          | (13,446)         | (2,502)          |
| Depreciation and amortization   | 4,632            | 7,874            | 7,973            |
| Amortization of deferred television production costs                                      | 27,269           | 20,651           | 21,478           |
| Impairment charge   | —                | 11,432           | 9,349            |
| Non-cash equity compensation  | 5,400            | 7,947            | 8,526            |
| Deferred income tax expense   | 1,327            | 1,347            | 1,854            |
| Loss on equity securities   | 15               | 877              | 2,221            |
| Gain on sale of short-term investment   | (1,512)          | (330)            | —                |
| Loss on sale of fixed assets  | 647              | —                | —                |
| Other non-cash charges, net   | 640              | 760              | 1,578            |
| <i>Changes in operating assets and liabilities</i>  |                  |                  |                  |
| Accounts receivable, net  | (711)            | (3,864)          | 41,695           |
| Inventory   | (143)            | 887              | (1,120)          |
| Deferred television production costs  | (25,894)         | (20,363)         | (20,238)         |
| Accounts payable and accrued liabilities and other  | 4,969            | (1,914)          | 243              |
| Accrued payroll and related costs   | (954)            | (30)             | (6,338)          |
| Deferred subscription revenue   | (996)            | (5,212)          | (5,684)          |
| Deferred revenue  | (484)            | 5                | 3,338            |
| Other changes   | 1,948            | (1,316)          | (7,009)          |
| <i>Total changes in operating assets and liabilities</i>                                  | <u>(22,265)</u>  | <u>(31,807)</u>  | <u>4,887</u>     |
| <b>Net cash provided by/(used in) operating activities</b>                                | <u>1,872</u>     | <u>(9,273)</u>   | <u>39,699</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                  |                  |                  |
| Capital expenditures  | (4,707)          | (8,609)          | (2,864)          |
| Proceeds from the sale of fixed assets  | 1,403            | —                | —                |
| Purchases of short-term investments   | (15,345)         | (25,010)         | (9,915)          |
| Sales of short-term investments   | 18,802           | 24,830           | 26,745           |
| Acquisition of business   | —                | —                | (46,310)         |
| Investment in other non-current assets  | —                | (828)            | (6,512)          |
| <b>Net cash provided by/(used in) investing activities</b>                                | <u>153</u>       | <u>(9,617)</u>   | <u>(38,856)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                  |                  |                  |
| Debt issuance costs   | —                | —                | (719)            |
| Proceeds from long-term debt  | —                | —                | 30,000           |
| Repayment of long-term debt   | (4,500)          | (6,000)          | (10,500)         |
| Proceeds from exercise of stock options   | 295              | 70               | 44               |
| <b>Net cash (used in)/provided by financing activities</b>                                | <u>(4,205)</u>   | <u>(5,930)</u>   | <u>18,825</u>    |
| <b>Net (decrease)/increase in cash</b>  | <u>(2,180)</u>   | <u>(24,820)</u>  | <u>19,668</u>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                                       | <u>25,384</u>    | <u>50,204</u>    | <u>30,536</u>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>   | <u>\$ 23,204</u> | <u>\$ 25,384</u> | <u>\$ 50,204</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES:</b>                                    |                  |                  |                  |
| Acquisition of business financed by stock issuance  | —                | —                | \$ 5,000         |

The accompanying notes are an integral part of these consolidated financial statements.

---

[Table of Contents](#)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(in millions except share data and where noted)**

**1. THE COMPANY**

Martha Stewart Living Omnimedia, Inc. (together with its wholly owned subsidiaries, the "Company") is a leading provider of original "how to" content and products for homemakers and other consumers. The Company's business segments are Publishing, Broadcasting and Merchandising.

In 2010, the Company announced its plan to report a "new" Publishing segment which encompasses the Company's print and digital distribution platforms that were previously reported in the Company's Publishing and Internet segments. The Company has been continuing to execute its strategy to leverage its core content across its print and digital platforms more efficiently by further centralizing the creative process. In addition, during the fourth quarter of 2010, the Company reorganized its advertising sales force to centralize selling efforts across all media. As a result of these fundamental changes in the way it views its business, the Company evaluated its operating segments and determined that the print and digital platforms no longer met the definition of separate operating segments in accordance with Accounting Standards Codification ("ASC") 280, *Segment Reporting* ("ASC 280"). The new Publishing segment provides management with a more meaningful assessment of the operating performance of the Company's print and digital platforms.

The Publishing segment primarily consists of the Company's operations related to its magazines and books, as well as its digital operations which includes the content-driven website, *marthastewart.com*. The Broadcasting segment primarily consists of the Company's television production operations, which produce television programming and other licensing revenue, and its satellite radio operations. The Merchandising segment consists of the Company's operations related to the design of merchandise and related promotional and packaging materials that are distributed by its retail and manufacturing partners in exchange for royalty income.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Recent accounting standards***

***Revenue Recognition for Multiple-Deliverable Revenue Arrangements***

In October 2009, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 09-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (a consensus of the FASB Emerging Issues Task Force)* ("ASU 09-13"). The Company adopted this standard on January 1, 2010. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

The Company participates in certain arrangements containing multiple deliverables. These arrangements generally consist of custom-created advertising programs delivered on multiple media platforms, as well as licensing programs which may also be supported by various promotional plans. Examples of significant program deliverables include print advertising pages in the Company's publications, commercial spots and product integrations on the Company's television and radio programs, and advertising impressions delivered on the Company's website. Arrangements that were executed prior to January 1, 2010 are accounted for in accordance with the provisions of ASC Topic 605, *Revenue Recognition* ("ASC 605"). Because the Company elected to early adopt, on a prospective basis, ASU 09-13, arrangements executed on or after January 1, 2010 are subject to the new guidance. ASU 09-13 updates the existing multiple-element arrangement guidance in ASC 605.

The determination of units of accounting includes several criteria under both ASC 605 and ASU 09-13. Consistent with ASC 605, ASU 09-13 requires that the Company examine separate contracts with the same entity or related parties that are entered into or near the same time to determine if the arrangements should be considered a single arrangement in the determination of units of accounting. While both ASC 605 and ASU 09-13 require that units delivered have standalone value to the customer, ASU 09-13 modifies the separation

---

## [Table of Contents](#)

criteria in determining units of accounting by eliminating the requirement to obtain objective and reliable evidence of the fair value of undelivered items. As a result of the elimination of this requirement, the Company's significant program deliverables generally meet the separation criteria under ASU 09-13, whereas under ASC 605 they did not qualify as separate units of accounting.

For those arrangements accounted for under ASC 605, if the Company is unable to put forth objective and reliable evidence of the fair value of each deliverable, then the Company accounts for the deliverables as a combined unit of accounting rather than separate units of accounting. In this case, the arrangement fee is recognized as revenue as the earnings process is completed, generally over the fulfillment term of the last deliverable.

For those arrangements accounted for under ASU 09-13, the Company is required to allocate revenue based on the relative selling price of each deliverable which qualifies as a unit of accounting, even if such deliverables are not sold separately by either the Company itself or other vendors. Determination of selling price is a judgmental process which requires numerous assumptions. The consideration is allocated at the inception of the arrangement to all deliverables based upon their relative selling prices. Selling prices for deliverables that qualify as separate units of accounting are determined using a hierarchy of: (1) vendor-specific objective evidence ("VSOE"), (2) third-party evidence and (3) best estimate of selling price. The Company is able to establish VSOE of selling price for certain of its radio deliverables; however, in most instances it has allocated consideration based upon its best estimate of selling price. The Company established VSOE of selling price of certain radio deliverables by demonstrating that a substantial majority of the recent standalone sales of those deliverables are priced within a relatively narrow range. The Company's other deliverables are generally priced with a wide range of discounts/premiums as the result of a variety of factors, including the size of the advertiser and the volume and placement of advertising sold to the advertiser. The Company's best estimate of selling price is intended to represent the price at which it would sell the deliverable if the Company were to sell the item regularly on a standalone basis. The Company's estimates consider market conditions, such as competitor pricing pressures, as well as entity-specific factors that are consistent with normal pricing practices, such as the recent history of the selling prices of similar products when sold on a standalone basis, the impact of the cost of customization, the size of the transaction, and other factors contemplated in negotiating the arrangement with the customer. The arrangement fee is recognized as revenue as the earnings process is completed, generally at the time each unit of accounting is fulfilled (*i.e.*, when magazines are on sale, at the time television integrations are aired or when the digital impressions are served).

### *Investments in Other Non-Current Assets*

In June 2009, the FASB issued Statement of Financial Accounting Standards No. 167, *Amendments to FASB Interpretation No. 46(R)* ("SFAS 167"). SFAS 167 amends certain requirements of FASB Interpretation No. 46(R) ("FIN 46R") to improve financial reporting by enterprises involved with a variable interest entity ("VIE") and provide more relevant and reliable information to users of financial statements. Among other changes, the amendments to FIN 46R replaced the then-existing quantitative approach for identifying the party that should consolidate a VIE, which was based on exposure to a majority of the risks and rewards, with a qualitative approach, based on determination of which party has the power to direct the most economically significant activities of the entity. Under the new guidance, a VIE must be consolidated if the enterprise has both (a) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (b) the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. The new guidance also requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE and amends certain guidance for determining whether an entity is a VIE.

SFAS 167 has a similar scope as FIN 46R, with the addition of entities previously considered qualifying special purpose entities and was effective for the first annual reporting period beginning after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter, with earlier application prohibited. In December 2009, the FASB issued ASU No. 2009-17,

---

## [Table of Contents](#)

*Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities* ("ASU 09-17"). The purpose of ASU 09-17 is to bring SFAS 167 (as discussed above) into the ASC by amending ASC Topic 810, *Consolidation*. The application of ASU 09-17 did not have an impact on the Company's financial condition or results of operations.

The Company has cost-based investments which represent investments in preferred stock. As of December 31, 2010, the Company's aggregate carrying value of these investments was \$5.8 million and has been included within other noncurrent assets in the consolidated balance sheet. The Company has determined that certain of these investments represent interests in VIEs. As of December 31, 2010, the Company's investments in the entities were substantially equal to its maximum exposure to loss. There are no future contractual funding commitments at this time. The Company has determined that the Company is not the primary beneficiary of these entities since the Company does not have the power to direct the activities that most significantly impact the entities' economic performance. Accordingly, the Company does not consolidate these entities and accounts for these investments under the cost method.

### ***Principles of Consolidation***

The consolidated financial statements include the accounts of all wholly owned subsidiaries. Investments in which the Company does not exercise significant influence over the investee are accounted for using the cost method of accounting. All significant intercompany transactions have been eliminated.

### ***Acquisitions***

The Company accounts for acquisitions using the purchase method. Under this method, the acquiring company allocates the purchase price to the assets acquired based upon their estimated fair values at the date of acquisition, including intangible assets that can be identified. The purchase price in excess of the fair value of the net assets acquired is recorded as goodwill.

### ***Investment in equity securities***

During 2009 and 2010 the Company held certain investments in equity securities which had readily determinable fair values. These securities were accounted for as available-for-sale securities and were reported at fair value, with unrealized gains and losses excluded from earnings and reported as accumulated other comprehensive income/(loss) within shareholders' equity. If a decline in fair value of any of these securities had been judged to be other than temporary, the cost basis of the securities would have been written down to fair value and the amount of the write-down would have been accounted for as a realized loss, included in earnings. No such write-downs occurred in either year. In 2010, the Company sold all of its investments in equity securities for a gain of \$1.5 million which is included in total other (expense)/income on the consolidated statement of operations. Accordingly, as of December 31, 2010, the Company no longer held investments in equity securities with readily determinable fair values.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash equivalents that mature within three months of the date of purchase.

### ***Short-term Investments***

Short-term investments include investments that have maturity dates in excess of three months, but less than one year, from the date of acquisition (see Note 3).

---

## [Table of Contents](#)

### **Revenue Recognition**

The Company recognizes revenues when realized or realizable and earned. Revenues and associated accounts receivable are recorded net of provisions for estimated future returns, doubtful accounts and other allowances. Allowances for uncollectible receivables are estimated based upon a combination of write-off history, aging analysis, and any specific, known troubled accounts.

See "Recent accounting standards" in this Note 2 for further discussion of revenue recognition for multiple-deliverable revenue arrangements.

Magazine advertising revenues are recorded based on the on-sale dates of magazines and are stated net of agency commissions and cash and sales discounts.

Deferred subscription revenue results from advance payments for subscriptions received from subscribers and is recognized on a straight-line basis over the life of the subscription as issues are delivered.

Newsstand revenues are recognized based on the on-sale dates of magazines and are recorded based upon estimates of sales, net of brokerage and newsstand related fees. Estimated returns are recorded based upon historical experience.

Deferred book revenue results from advance payments received from the Company's publishers and is recognized as manuscripts are delivered to and accepted by the publishers. Revenue is also earned from book publishing as sales on a unit basis exceed the advanced royalty.

Digital advertising revenues on the Company's websites are generally based on the sale of impression-based advertisements, which are recorded in the period in which the advertisements are served.

Television advertising revenues for season 5 of *The Martha Stewart Show* in syndication were recognized when the related commercials were aired and were recorded net of agency commission and estimated reserves for television audience underdelivery. Television spot advertising for season 6 of *The Martha Stewart Show* is sold by Hallmark Channel, with net receipts payable to the Company quarterly. Since advertisers contract with Hallmark Channel directly, balance sheet reserves for television audience underdelivery are not required; however, revenues continue to be recognized when commercials are aired and are recorded net of agency commission and the impact of television audience underdelivery. Television integration revenues are recognized when the segment featuring the related product/brand immersion is initially aired. Television revenues related to Emeril Lagasse are generally recognized when services are performed, regardless of when the episodes air. Licensing revenues are recorded as earned in accordance with the specific terms of each agreement and are generally recognized upon delivery of the episodes to the licensee, provided that the license period has begun. Throughout 2010, the Company executed several agreements with Hallmark Channel, certain of which are combined as one arrangement. The agreements with Hallmark Channel are accounted for under the guidance set forth in ASC 926, *Entertainment – Films*. Radio advertising revenues are generally recorded when the related commercials are aired and are recorded net of agency commissions. Licensing revenues from the Company's radio programming are recorded on a straight-line basis over the term of the agreement.

Licensing-based revenues, most of which are in the Merchandising segment, are accrued on a monthly basis based on the specific mechanisms of each contract. Payments are generally made by the Company's partners on a quarterly basis. Generally, revenues are accrued based on actual sales, while any minimum guarantees are earned evenly over the fiscal year. Revenues related to the Company's agreement with Kmart had been recorded on a monthly basis based on actual retail sales, until the last period of the year, when the Company recognized a substantial majority of the true-up between the minimum royalty amount and royalties paid on actual sales. Not recognizing revenue until the fourth quarter was originally driven in large part by concern about whether the collectability of the minimums was reasonably assured in the wake of the Kmart Chapter 11 filing. Concern

---

## [Table of Contents](#)

about the collectability persisted in subsequent years due to difficulties in the relationship with Kmart and numerous store closings that caused royalties to fall short of the minimums. Accordingly, the true-up payment had been recorded in the fourth quarter at the time the true-up amounts were known and subsequently collected. The Company's Kmart agreement ended in January 2010.

### *Inventories*

Inventory consisting of paper is stated at the lower of cost or market. Cost is determined using the first-in, first-out ("FIFO") method.

### *Television Production Costs*

Television production costs are capitalized and amortized based upon estimates of future revenues to be received and future costs to be incurred for the applicable television product. The Company bases its estimates primarily on existing contracts for programs, historical advertising rates and ratings, as well as market conditions. Estimated future revenues and costs are adjusted regularly based upon actual results and changes in market and other conditions.

### *Property, Plant and Equipment*

Property, plant and equipment is stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the lease term or, if shorter, the estimated useful lives of the related assets.

The useful lives of the Company's assets are as follows:

|                                   |               |
|-----------------------------------|---------------|
| Studio sets                       | 2 years       |
| Furniture, fixtures and equipment | 3 – 5 years   |
| Computer hardware and software    | 3 – 5 years   |
| Leasehold improvements            | life of lease |

### *Goodwill and Intangible Assets*

#### *Goodwill*

The components of goodwill as of December 31, 2010 and 2009 are set forth in the schedule below, and are reported within the Publishing and Merchandising segments:

|                       |                  |
|-----------------------|------------------|
| <i>(in thousands)</i> |                  |
| Publishing            | \$ 44,257        |
| Merchandising         | 850              |
| Total                 | <u>\$ 45,107</u> |

The Company reviews goodwill for impairment by applying a fair-value based test annually, or more frequently if events or changes in circumstances warrant, in accordance with ASC Topic 350, *Goodwill (and Indefinite-Lived Intangible Assets)*. Potential goodwill impairment is measured based upon a two-step process. In the first step, the Company compares the fair value of a reporting unit with its carrying amount including goodwill using a discounted cash flow valuation method. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus making the second step in impairment testing unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of the impairment loss. The Company estimates

---

## Table of Contents

fair values based on the future expected cash flows, revenues, earnings and other factors, which consider segment level historical results, current trends, and operating and cash flow projections. The Company's estimates are subject to uncertainty, and may be affected by a number of factors outside its control, including general economic conditions, the competitive market and regulatory changes. If actual results differ from the Company's estimate of future cash flows, revenues, earnings and other factors, it may record additional impairment charges in the future.

For the years ended December 31, 2010 and 2009, no impairment charges related to goodwill or intangible assets were deemed necessary. For the year ended December 31, 2008, the Company determined that the carrying amount of the *Body + Soul* properties reporting unit exceeded its fair value and recorded a non-cash goodwill impairment charge of approximately \$8.8 million. The fair value of the *Body + Soul* reporting unit was calculated using the income approach, which requires estimates of future operating results and cash flows discounted using an estimated discount rate. The estimates resulted from updated financial forecasts, which reflected the Company's updated market view, business model revisions and lower spending levels. The Company evaluated the impact of these revised forecasts on its view of the *Body + Soul* reporting unit and determined that a write-off of the goodwill was appropriate.

### Intangible assets

The components of intangible assets as of December 31, 2010, 2009 and 2008 are set forth in the schedule below, and are reported within the Publishing, Broadcasting and Merchandising segments:

| (in thousands)                               | Balance at<br>December 31,<br>2008 | Amortization<br>expense | Balance at<br>December 31,<br>2009 | Amortization<br>expense | Balance at<br>December 31,<br>2010 |
|--|------------------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|
| Trademarks                                   | \$ 45,200                          | \$ —                    | \$ 45,200                          | \$ —                    | \$ 45,200                          |
| Other intangibles                            | 6,160                              | —                       | 6,160                              | —                       | 6,160                              |
| Accumulated amortization — other intangibles | (3,155)                            | (1,135)                 | (4,290)                            | (523)                   | (4,813)                            |
| Total  | <u>\$ 48,205</u>                   | <u>\$ (1,135)</u>       | <u>\$ 47,070</u>                   | <u>\$ (523)</u>         | <u>\$ 46,547</u>                   |

The unamortized portion of finite-lived intangible assets of \$1.3 million will be amortized over the period between January 1, 2011 and December 31, 2014 based upon future estimated cash flows.

The Company reviews long-lived tangible assets and intangible assets with finite useful lives for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable, in accordance with ASC Topic 360-10, *Impairment or Disposal of Long-lived Assets*. Using the Company's best estimates based on reasonable assumptions and projections, the Company records an impairment loss to write down the assets to their estimated fair values if carrying values of such assets exceed their related undiscounted expected future cash flows. The impairment loss is measured as the amount by which the carrying amount exceeds the fair value. The Company evaluates intangible assets with finite useful lives at the lowest level at which independent cash flows can be identified. The Company evaluates corporate assets or other long-lived assets at a consolidated entity or segment reporting unit level, as appropriate.

For the years ended December 31, 2010 and 2009, no impairment charges for long-lived tangible assets and intangible assets with finite useful lives were deemed necessary. In the fourth quarter of 2008, the Company recorded a non-cash impairment charge of \$0.5 million for the write-down of an intangible asset in the Publishing business segment related to the 2004 acquisition of the *Body + Soul* properties.

### Investment in Other Non-Current Assets

During the second quarter of 2008, the Company entered into a three-year agreement with TurboChef Technologies, Inc. ("TurboChef") to provide intellectual property and promotional services in exchange for

---

## [Table of Contents](#)

\$10.0 million. In lieu of cash consideration, TurboChef provided consideration in the form of 381,049 shares of TurboChef stock and a warrant to purchase 454,000 shares of TurboChef stock for an aggregate fair value of approximately \$5.0 million in the first agreement year (2008), and was to provide another \$2.5 million in each of years two and three of the agreement in the form of stock or cash, at its option, for a total contract value of \$10.0 million.

On January 5, 2009, the Middleby Corporation ("Middleby") completed its acquisition of TurboChef in a cash and stock transaction. Under the terms of the merger agreement, holders of TurboChef's common shares received a combination of \$3.67 in cash and 0.0486 shares of Middleby common stock per TurboChef share. In addition, the warrant was converted to a new warrant to purchase 22,064 shares of Middleby. The consideration upon the merger equated to \$2.0 million, which represented \$1.4 million in cash and 18,518 shares of Middleby common stock worth \$0.5 million on January 5, 2009, as well as \$0.1 million related to the warrant. In the first quarter of 2009, Middleby paid the Company \$2.5 million in cash, fulfilling the second year obligation under the agreement. During the second quarter of 2009, the Company sold its 18,518 shares of Middleby common stock for \$0.9 million representing a gain on sale of equity securities of \$0.3 million. In July 2009, the Company and Middleby agreed to terminate the intellectual property and promotional services agreement and to cancel the related warrant. In connection with the termination agreement, Middleby paid the Company \$2.0 million in cash. This cash payment plus the remaining deferred revenue of \$3.6 million for a total of \$5.6 million was recognized during the third and fourth quarters of 2009 as the Company fulfilled certain remaining deliverables.

Prior to the cancellation of the warrant, any changes to the market value of the Middleby common stock required an adjustment to the warrant. The warrant met the definition of a derivative in accordance with ASC Topic 815, *Derivatives and Hedging*, and was marked to market each quarter with the adjustment recorded in other income or other expense. In the first quarter of 2009, the Company recorded \$0.8 million of losses on equity securities to reflect the market fluctuations of the warrant. In the second quarter of 2009, the Company recorded \$0.1 million of losses on equity securities to reflect the cancellation of the warrant.

Non-cash amounts related to these agreements have been appropriately adjusted in the cash flows from operating activities in the statement of cash flows.

In the twelve-month period ended December 31, 2009, the Company recorded a non-cash impairment charge in the Merchandising segment of \$11.4 million to reduce the carrying value of its cost-based equity investment in United Craft MS Brands, LLC ("United Craft").

On October 9, 2009, Wilton Brands, Inc. and Wilton Holdings, Inc. ("Wilton Holdings") reached an agreement to restructure the capital structure of the affiliates of United Craft. Wilton Holdings, a subsidiary of United Craft, issued new shares of its common stock, constituting a majority of its total shares, to the new debt holders of Wilton Holdings. The Company currently has merchandise agreements with Wilton Properties, Inc., a subsidiary of United Craft, for various crafts products sold under the *Martha Stewart Crafts* name. These agreements contain change of control provisions which stipulate that in the event of a sale of United Craft with no distributions issued to unitholders, the Company is due a make-whole payment. As a result of the restructuring transaction, the Company received a \$3.0 million cash make-whole payment in October 2009 which was recorded as a reduction to general and administrative expenses within the Merchandising segment.

While the Company has assessed the value of investments and concluded that there are no losses that are believed to be other-than-temporary as of December 31, 2010, it is reasonably possible that individual investments in the Company's portfolio may experience an other-than-temporary decline in value in the future if the underlying issuer experiences poor operating results or the U.S. or certain foreign equity markets experience further declines in value.

As of December 31, 2010, the Company's aggregate carrying value of its cost-based investments was \$5.8 million. This amount primarily consists of the Company's preferred stock investments in WeddingWire, pingg and Ziplist.

---

## [Table of Contents](#)

### *Advertising Costs*

Advertising costs, consisting primarily of direct-response advertising, are expensed in the period in which the related advertising campaign occurs.

### *Earnings Per Share*

Basic earnings per share is computed using the weighted average number of actual common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur from the exercise of stock options and shares covered under a warrant and the vesting of restricted stock and restricted stock units. For the years ended December 31, 2010, 2009 and 2008, the shares subject to options, the warrant, restricted stock and restricted stock units that were excluded from the computation of diluted earnings per share because their effect would have been antidilutive were 5,389,222, 5,696,344 and 5,858,784.

### *Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Management does not expect such differences to have a material effect on the Company's consolidated financial position or results of operations.

### *Equity Compensation*

In accordance with the fair-value recognition provisions of ASC Topic 718, *Share-Based Payments* and Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 107, compensation cost recognized in the years ended December 31, 2010, 2009 and 2008 is based on the grant date fair value estimated in accordance with the provisions of ASC Topic 718. Restricted shares are valued at the market value of traded shares on the date of grant. Other than performance-based shares tied to the market price of the Company's Class A Common Stock, performance-based awards are accrued as compensation expense based on the probable outcome of the performance condition, consistent with requirements of ASC Topic 718. Stock options are valued using a Black-Scholes option pricing model. The Black-Scholes option pricing model requires numerous assumptions, including expected volatility of the Company's Class A Common Stock price and expected life of the option.

### *Other*

Certain prior year financial information has been reclassified to conform with fiscal 2010 financial statement presentation. Prior years' results of the former Internet segment have been combined with those of the Publishing segment in connection with the Company's revised identification of operating segments.

## **3. FAIR VALUE MEASUREMENTS**

The Company categorizes its assets and liabilities measured at fair value into a fair value hierarchy that prioritizes the inputs used in pricing the asset or liability. The three levels of the fair value hierarchy are:

- Level 1: Observable inputs such as quoted prices for identical assets and liabilities in active markets obtained from independent sources.
- Level 2: Other inputs that are observable directly or indirectly, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs that are derived principally from or corroborated by observable market data. The fair value of the Company's level 2 financial assets is primarily obtained from observable market prices for identical underlying securities that may not be actively traded. Certain of these securities may have different market prices from multiple market data sources, in which case a weighted average market price is used.

## Table of Contents

- Level 3: Unobservable inputs for which there is little or no market data and require the Company to develop its own assumptions, based on the best information available in the circumstances, about the assumptions market participants would use in pricing the asset or liability.

The following tables present the Company's assets that are measured at fair value on a recurring basis:

| December 31, 2010                     |  |   |  |                                     |
|---------------------------------------|--|---|--|-------------------------------------|
| (in thousands)                        | Quoted Market<br>Prices<br>in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair Value<br>Measurements |
| <b>Short-term investments:</b>        |  |   |  |                                     |
| U.S. government and agency securities | \$ —   | \$ 1,637  | \$ —   | \$ 1,637                            |
| Corporate obligations                 | —  | 5,977   | —  | 5,977                               |
| Other fixed income securities         | —  | 2,140   | —  | 2,140                               |
| International securities              | —  | 337   | —  | 337                                 |
| <b>Total</b>                          | <b>\$ —</b>  | <b>\$ 10,091</b>  | <b>\$ —</b>  | <b>\$ 10,091</b>                    |

| December 31, 2009                    |  |   |  |                                     |
|--------------------------------------|--|---|--|-------------------------------------|
| (in thousands)                       | Quoted Market<br>Prices<br>in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total<br>Fair Value<br>Measurements |
| <b>Short-term investments:</b>       |  |   |  |                                     |
| Four month certificate of deposit    | \$ —   | \$ 10,948   | \$ —   | \$ 10,948                           |
| Marketable equity securities         | 2,137  | —   | —  | 2,137                               |
| <b>Total short-term investments:</b> | <b>2,137</b>   | <b>10,948</b>   | <b>—</b>   | <b>13,085</b>                       |
| <b>Other current assets:</b>         |  |   |  |                                     |
| Marketable equity securities         | 895  | —   | —  | 895                                 |
| <b>Total</b>                         | <b>\$ 3,032</b>  | <b>\$ 10,948</b>  | <b>\$ —</b>  | <b>\$ 13,980</b>                    |

The Company has no liabilities that are measured at fair value on a recurring basis.

### Marketable Equity Securities

During 2010, the Company sold the marketable equity securities it held at December 31, 2009 for a gain of \$1.5 million which is included in total other (expense)/income on the consolidated statements of operations. The specific identification method was used to determine the cost of the securities sold.

### Assets measured at fair value on a nonrecurring basis

The Company's non-financial assets, such as goodwill, intangible assets and property and equipment, as well as cost method investments, are measured at fair value when there is an indicator of impairment and are recorded at fair value only when an impairment charge is recognized. Such impairment charges would incorporate fair value measurements based on level 3 inputs.

---

## [Table of Contents](#)

### 4. ACCOUNTS RECEIVABLE, NET

The components of accounts receivable at December 31, 2010 and 2009 were as follows:

| (in thousands)                                       | 2010             | 2009             |
|--|------------------|------------------|
| Advertising  | \$ 36,529        | \$ 38,735        |
| Licensing  | 19,888           | 17,498           |
| Other  | 4,335            | 4,339            |
|  | 60,752           | 60,572           |
| Less: reserve for credits and uncollectible accounts | 1,502            | 4,208            |
|  | <u>\$ 59,250</u> | <u>\$ 56,364</u> |

At December 31, 2009, accounts receivable from Kmart was approximately \$7.7 million, primarily related to the true-up payment due to the minimum guaranteed royalty for the year. Payment of such receivable was received by the Company in the first quarter of 2010, prior to the filing of the Annual Report on Form 10-K for the year ended December 31, 2009. There was no receivable from Kmart at December 31, 2010.

Television underdelivery reserves that were previously characterized as reserves against accounts receivable through September 30, 2010, were reclassified as accrued liabilities as of December 31, 2010 due to the change in distribution of *The Martha Stewart Show* from syndication to cable. The Company no longer directly sells television commercial spots and therefore does not generate receivables that are subject to underdelivery.

### 5. INVENTORIES

Inventory is comprised of paper, and was valued at \$5.3 million and \$5.2 million at December 31, 2010 and 2009, respectively. Cost is determined using the FIFO method.

### 6. PROPERTY, PLANT AND EQUIPMENT, NET

The components of property, plant and equipment at December 31, 2010 and 2009 were as follows:

| (in thousands)                                  | 2010             | 2009             |
|---|------------------|------------------|
| Studios and equipment                           | \$ 4,202         | \$ 4,202         |
| Furniture, fixtures and equipment               | 7,702            | 10,207           |
| Computer hardware and software                  | 8,404            | 28,187           |
| Leasehold improvements                          | 29,690           | 35,612           |
| <b>Total Property, Plant and Equipment</b>      | 49,998           | 78,208           |
| Less: accumulated depreciation and amortization | 35,491           | 60,940           |
| <b>Net Property, Plant and Equipment</b>        | <u>\$ 14,507</u> | <u>\$ 17,268</u> |

Depreciation and amortization expenses related to property, plant and equipment were \$3.8 million, \$6.4 million and \$5.5 million, for the years ended December 31, 2010, 2009 and 2008, respectively.

### 7. CREDIT FACILITIES

The Company has a line of credit with Bank of America in the amount of \$5.0 million, which is generally used to secure outstanding letters of credit. The line was renewed as of June 30, 2010 for a one-year period. The renewal did not include any substantive changes from the prior year's terms. The Company was compliant with the debt covenants related to the line of credit as of December 31, 2010. The Company had no outstanding borrowings under this facility as of December 31, 2010 and had letters of credit outstanding of \$2.6 million.

---

## Table of Contents

In April 2008, the Company entered into a loan agreement with Bank of America for a term loan in the amount of \$30.0 million related to the acquisition of certain assets of Emeril Lagasse. The loan is secured by substantially all of the assets of the Emeril business that the Company acquired. The loan agreement requires equal principal payments of \$1.5 million and accrued interest to be paid by the Company quarterly for the duration of the loan term, approximately 5 years. As of December 31, 2010, the Company has paid \$21.0 million in principal, including prepayment of the \$4.5 million due through September 30, 2011, such that \$9.0 million was outstanding at December 31, 2010. Only one principal payment of \$1.5 million due as of December 31, 2011 is reflected as a current liability in the consolidated balance sheet as of December 31, 2010. The interest rate on all outstanding amounts is equal to a floating rate of 1-month London Interbank Offered Rate ("LIBOR") plus 2.85%.

The loan terms require the Company to be in compliance with certain financial and other covenants, failure with which to comply would result in an event of default and would permit Bank of America to accelerate and demand repayment of the loan in full.

A summary of the most significant financial covenants is as follows:

### Financial Covenant

|  |                               |
|--|-------------------------------|
| Tangible Net Worth   | At least \$40.0 million       |
| Funded Debt to EBITDA (a)  | Equal to or less than 2.0     |
| Parent Guarantor (the Company) Basic Fixed Charge Coverage Ratio (b) | Equal to or greater than 2.75 |
| Quick Ratio  | Equal to or greater than 1.0  |

- (a) EBITDA is net income before interest, taxes, depreciation, amortization, non-cash equity compensation and impairment charges as defined in the loan agreement and subsequent waiver and amendment.
- (b) Basic Fixed Charge Coverage is the ratio of EBITDA for the trailing four quarters to the sum of interest expense for the trailing four quarters and the current portion of long-term debt at the covenant testing date.

In the fourth quarter, the Company had anticipated that it would not be in compliance with the covenants of the loan agreement that require the Company to maintain a Funded Debt to EBITDA Ratio equal to or less than 2.0 and a Parent Guarantor Basic Fixed Charge Ratio equal to or greater than 2.75 for the twelve month period ending December 31, 2010. As a result, the Company executed a waiver in respect of the maintenance of these covenants of the loan agreement with Bank of America that applies to the fourth quarter of 2010 and the first quarter of 2011. Other than the covenants that were waived, the Company was compliant with the debt covenants as of December 31, 2010.

In the first quarter of 2011, the Company anticipated that it would not be in compliance with the covenants of the loan agreement that require the Company to maintain Tangible Net Worth of at least \$40 million as of March 31, 2011, as well as to maintain a Funded Debt to EBITDA Ratio equal to or less than 2.0 and a Parent Guarantor Basic Fixed Charge Ratio equal to or greater than 2.75 for the twelve month period ending June 30, 2011. As a result, the Company executed an amendment to the loan agreement with Bank of America, which requires the Company to maintain Tangible Net Worth of at least \$35 million that applies to the first quarter of 2011, and with respect to the other two covenants, the Company executed a waiver that excludes these adjusted EBITDA-related covenants in their entirety for the second quarter of 2011.

The Company currently expects to be compliant with all other debt covenants through 2011. Additionally, the Company currently has cash balances that are in excess of the loan payable, which provides the Company with the ability to repay the outstanding principal in full at any time in the event of default or to prevent default.

The loan agreement also contains a variety of other customary affirmative and negative covenants that, among other things, limit the Company's and its subsidiaries' ability to incur additional debt, suffer the creation of liens on their assets, pay dividends or repurchase stock, make investments or loans, sell assets, enter into

---

## [Table of Contents](#)

transactions with affiliates other than on arm's length terms in the ordinary course of business, make capital expenditures, merge into or acquire other entities or liquidate. The negative covenants expressly permit the Company to, among other things: incur an additional \$15 million of debt to finance permitted investments or acquisitions; incur an additional \$15 million of earnout liabilities in connection with permitted acquisitions; spend up to \$30 million repurchasing the Company's stock or paying dividends thereon (so long as no default or event of default existed at the time of or would result from such repurchase or dividend payment and the Company would be in pro forma compliance with the above-described financial covenants assuming such repurchase or dividend payment had occurred at the beginning of the most recently-ended four-quarter period); make investments and acquisitions (so long as no default or event of default existed at the time of or would result from such investment or acquisition and the Company would be in pro forma compliance with the above-described financial covenants assuming the acquisition or investment had occurred at the beginning of the most recently-ended four-quarter period); make up to \$15 million in capital expenditures in fiscal year 2008 and \$7.5 million in each subsequent fiscal year, provided that the Company can carry over any unspent amount to any subsequent fiscal year (but in no event may the Company make more than \$15 million in capital expenditures in any fiscal year); sell one of the Company's investments (or any asset the Company might receive in conversion or exchange for such investment); and sell assets during the term of the loan comprising, in the aggregate, up to 10% of the Company's consolidated shareholders' equity, provided the Company receives at least 75% of the consideration in cash.

## **8. SHAREHOLDERS' EQUITY**

The Company has two classes of common stock outstanding. The Class B Common Stock is identical in all respects to Class A Common Stock, except with respect to voting and conversion rights. Each share of Class B Common Stock entitles its holder to ten votes and is convertible on a one-for-one basis to Class A Common Stock at the option of the holder and automatically upon most transfers.

## **9. EMPLOYEE AND NON-EMPLOYEE BENEFIT AND COMPENSATION PLANS**

### ***Retirement Plans***

The Company established a 401(k) retirement plan effective July 1, 1997, available to substantially all employees. An employee can contribute up to a maximum of 25% of compensation to the plan, or the maximum allowable contribution by the Internal Revenue Code (\$0.02 million in 2010, 2009 and 2008), whichever is less. The Company matches 50% of the first 6% of compensation contributed. Employees vest ratably in employer-matching contributions over a period of four years of service. The employer-matching contributions totaled approximately \$0.8 million, \$1.0 million and \$1.1 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The Company does not sponsor any post-retirement and/or post-employment benefit plan.

### ***Stock Incentive Plans***

Prior to May 2008, the Company had several stock incentive plans that permitted the Company to grant various types of share-based incentives to key employees, directors and consultants. The primary types of incentives granted under these plans were stock options and restricted shares of common stock. The Compensation Committee of the Board of Directors was authorized to grant awards for up to a maximum of 10,000,000 underlying shares of Class A Common Stock under the Martha Stewart Living Omnimedia, Inc. Amended and Restated 1999 Stock Incentive Plan (the "1999 Option Plan"), and awards for up to a maximum of 600,000 underlying shares of Class A Common Stock under the Company's Non-Employee Director Stock and Option Compensation Plan (the "Non-Employee Director Plan").

In April 2008, the Company's Board of Directors adopted the Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan (the "New Stock Plan"), which was approved by the Company's

---

## [Table of Contents](#)

stockholders at the Company's 2008 annual meeting in May 2008. The New Stock Plan has 10,000,000 shares of Class A Common Stock available for issuance. The New Stock Plan replaced the 1999 Option Plan and Non-Employee Director Plan (together, the "Prior Plans"), which together had an aggregate of approximately 1,850,000 shares still available for issuance. Therefore, the total net effect of the replacement of the Prior Plans and adoption of the New Stock Plan was an increase of approximately 8,150,000 shares of Class A Common Stock available for issuance under the Company's stock plans.

In November 1997, the Company established the Martha Stewart Living Omnimedia LLC Nonqualified Class A LLC Unit/Stock Option Plan (the "1997 Option Plan"). The Company had an agreement with Martha Stewart whereby she periodically returned to the Company shares of Class B Common Stock owned by her or her affiliates in amounts corresponding on a net treasury basis to the number of options exercised under the 1997 Option Plan during the relevant period. As of the first quarter of 2008, all shares of Class B Common Stock due to the Company pursuant to this agreement had been returned. No options remain outstanding under the 1997 Option Plan and no further awards will be made from the 1997 Option Plan.

Compensation expense is recognized in the production, distribution and editorial, the selling and promotion, and the general and administrative expense lines of the Company's consolidated statements of operations. For the years ended December 31, 2010, 2009 and 2008, the Company recorded non-cash equity compensation expense of \$5.4 million, \$7.9 million, and \$8.5 million, respectively. In 2006 and 2005, the Company capitalized \$0.2 million and \$1.3 million, respectively, of non-cash equity compensation which was issued in connection with the execution of certain licensing agreements. Accordingly, the value of the shares is amortized to non-cash equity compensation expense as revenues are recognized. For the year ended December 31, 2010, \$0.04 million was expensed in connection with these awards. As of December 31, 2010, capitalized non-cash equity compensation was \$0.1 million.

### *Black-Scholes Assumptions*

The Company uses the Black-Scholes option pricing model to value options and warrants issued. The model requires numerous assumptions, including expected volatility of the Company's Class A Common Stock price, expected life of the option and expected cancellations. These assumptions are reviewed and used to value grants when they are issued.

### *Stock Options*

Options which were issued under the 1999 Option Plan were granted with an exercise price equal to the closing price of Class A Common Stock on the most recent prior date for which a closing price is available, without regard to after-hours trading. Options granted under the New Stock Plan are granted with an exercise price equal to the closing price of the Class A Common Stock on the date of grant. Stock options have a term not to exceed 10 years. The Compensation Committee determines the vesting period for the Company's stock options. Generally, employee stock options vest ratably on each of either the first three or four anniversaries of the grant date. Non-employee director options generally vest over a one-year period from the grant date. Employee option awards usually do not provide for accelerated vesting upon retirement, death, or disability unless otherwise provided in the applicable award agreement.

As of December 31, 2010 and 2009, there was \$4.2 million and \$5.7 million, respectively, of total unrecognized compensation cost related to nonvested stock options to be recognized over a weighted average period of 2.0 years.

The intrinsic values of options exercised during the years ended December 31, 2010 and 2009 were not significant. The total cash received from the exercise of stock options was \$0.3 million and \$0.1 million for the years ended December 31, 2010 and 2009, respectively, and is classified as financing cash flows.

## Table of Contents

During 2010, the Company issued 870,002 options to employees from the New Stock Plan. During 2009, the Company issued 3,805,765 options to employees from the New Stock Plan. During 2008, the Company issued 786,376, 2,700,000, and 50,000 options to employees from the New Stock Plan, the 1999 Option Plan, and the Non-Employee Director Plan, respectively.

The fair value of employee option awards was estimated on the grant date using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions:

|  | 2010            | 2009            | 2008            |
|--|-----------------|-----------------|-----------------|
| Risk-free interest rates                     | 1.0% – 1.6%     | 0.9% – 2.33%    | 1.2% – 2.5%     |
| Dividend yields                              | Zero            | Zero            | Zero            |
| Expected volatility                          | 61.8% – 63.8%   | 45.1% – 64.3%   | 45.1% – 50.3%   |
| Expected option life                         | 2.5 – 3.7 years | 2.5 – 3.7 years | 2.5 – 3.7 years |
| Average fair market value per option granted | \$2.14 – \$2.61 | \$0.71 – \$3.29 | \$1.69 – \$3.27 |

Note: This table represents a blend of assumptions.

During 2010 and 2009, no options were granted to non-employees. During 2008, the Company issued 100,858 options to a non-employee under the New Stock Plan. The fair value of non-employee contingent awards where vesting restrictions lapsed in 2008 was estimated on the date when vesting provisions lapsed, using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions:

|  | 2008            |
|--|-----------------|
| Risk-free interest rates                     | 3.3% – 3.7%     |
| Dividend yields                              | Zero            |
| Expected volatility                          | 45.5% – 47.8%   |
| Expected option life                         | 7.1 – 7.5 years |
| Average fair market value per option granted | \$2.00 – \$2.55 |

Note: This table represents a blend of assumptions.

Changes in outstanding options under the 1999 Option Plan and the Non-Employee Director Plan during the years ended December 31, 2010 and 2009 were as follows:

|   | Number of shares subject to options | Weighted average exercise price |
|---|-------------------------------------|---------------------------------|
| Outstanding as of December 31, 2008             | 3,531,391                           | \$ 12.71                        |
| Granted   | —                                   | —                               |
| Exercised                                       | (9,900)                             | 7.04                            |
| Cancelled                                       | (688,624)                           | 10.08                           |
| Outstanding as of December 31, 2009             | 2,832,867                           | \$ 13.37                        |
| Granted   | —                                   | —                               |
| Exercised                                       | (3,500)                             | 6.78                            |
| Cancelled                                       | (249,467)                           | 21.55                           |
| Outstanding as of December 31, 2010             | 2,579,900                           | \$ 12.59                        |
| Options exercisable at December 31, 2010        | 2,109,332                           | \$ 13.82                        |
| Shares available for grant at December 31, 2010 | —                                   | —                               |

[Table of Contents](#)

Changes in outstanding options under the New Stock Plan during the years ended December 31, 2010 and 2009 were as follows:

|   | Number of<br>shares<br>subject to<br>options | Weighted<br>average<br>exercise price |
|---|--|---------------------------------------|
| Outstanding as of December 31, 2008             | 879,734                                      | \$ 8.47                               |
| Granted   | 3,805,765                                    | 2.78                                  |
| Exercised                                       | —  | —                                     |
| Cancelled                                       | (485,000)                                    | 3.70                                  |
| Outstanding as of December 31, 2009             | 4,200,499                                    | \$ 3.87                               |
| Granted   | 870,002                                      | 5.45                                  |
| Exercised                                       | (138,249)                                    | 1.96                                  |
| Cancelled                                       | (190,376)                                    | 4.30                                  |
| Outstanding as of December 31, 2010             | 4,741,876                                    | \$ 4.20                               |
| Options exercisable at December 31, 2010        | 1,521,705                                    | \$ 4.94                               |
| Shares available for grant at December 31, 2010 | 3,427,476                                    |                                       |

The following table summarizes information about the shares subject to stock options outstanding under the Company's option plans as of December 31, 2010:

| Range of Exercise Price<br>Per Share | Weighted<br>Average<br>Remaining<br>Contractual<br>Life in<br>Years | Shares Subject to<br>Options Outstanding |  | Shares Subject to<br>Options Exercisable |  |
|--------------------------------------|---|--|--|--|--|
|                                      |   | Number<br>Outstanding                    | Weighted<br>Average<br>Exercise<br>Price | Number<br>Exercisable                    | Weighted<br>Average<br>Exercise<br>Price |
| \$1.96-\$10.61                       | 8.0   | 6,264,551                                | \$ 4.92                                  | 2,573,812                                | \$ 5.87                                  |
| \$14.90-\$15.75                      | 0.4   | 9,225                                    | 15.46                                    | 9,225                                    | 15.46                                    |
| \$15.90                              | 1.1   | 150,000                                  | 15.90                                    | 150,000                                  | 15.90                                    |
| \$16.45-\$18.90                      | 4.2   | 490,500                                  | 18.48                                    | 490,500                                  | 18.48                                    |
| \$19.92-\$26.25                      | 4.8   | 207,500                                  | 20.50                                    | 207,500                                  | 20.50                                    |
| \$26.56-\$33.75                      | 4.1   | 200,000                                  | 28.55                                    | 200,000                                  | 28.55                                    |
| \$1.96-\$33.75                       | 7.4   | 7,321,776                                | \$ 7.16                                  | 3,631,037                                | \$ 10.10                                 |

*Restricted Stock and Restricted Stock Units*

Restricted stock represents shares of common stock that are subject to restrictions on transfer and risk of forfeiture until the fulfillment of specified conditions. Restricted stock is generally expensed ratably over the restriction period, typically ranging from three to four years. Restricted stock expense for the years ended December 31, 2010, 2009 and 2008 was \$2.1 million, \$5.1 million and \$6.7 million, respectively.

---

## Table of Contents

A summary of the shares of restricted stock issued under the Company's 1999 Option Plan that had not yet vested as of December 31, 2010 and changes during the year ended December 31, 2010 is as follows:

| (in thousands, except share data) | Shares        |           | Weighted<br>Average Grant<br>Date Value |
|-----------------------------------|---------------|-----------|---|
| Nonvested at December 31, 2009    | 219,203       | \$        | 10.58                                   |
| Granted                           | —             |           | —                                       |
| Vested (1)                        | (130,614)     |           | 12.60                                   |
| Forfeitures                       | (26,896)      |           | 8.39                                    |
| Nonvested at December 31, 2010    | <u>61,693</u> | <u>\$</u> | <u>7.27</u>                             |

- (1) Included in the gross shares vested during the year ended December 31, 2010 are 55,550 shares of Class A Common Stock which were surrendered by recipients in order to fulfill their tax withholding obligations.

The fair value of nonvested under the 1999 Option Plan shares is determined based on the closing price of the Company's Class A Common Stock on the day preceding grant date. As of December 31, 2010 and 2009, the weighted-average grant date fair values of nonvested shares were \$0.1 million and \$1.5 million, respectively. As of December 31, 2010, there was \$0.2 million of total unrecognized compensation cost related to nonvested restricted stock arrangements to be recognized over a weighted-average period of less than one-half year.

A summary of the shares of restricted stock issued under the Company's New Stock Plan that had not yet vested as of December 31, 2010 and changes during the year ended December 31, 2010 is as follows:

| (in thousands, except share data) | Shares         |           | Weighted<br>Average Grant<br>Date Value |
|-----------------------------------|----------------|-----------|---|
| Nonvested at December 31, 2009    | 493,129        | \$        | 7.35                                    |
| Granted                           | 67,912         |           | 5.42                                    |
| Vested(1)                         | (217,916)      |           | 5.54                                    |
| Forfeitures                       | (22,203)       |           | 6.29                                    |
| Nonvested at December 31, 2010    | <u>320,922</u> | <u>\$</u> | <u>8.24</u>                             |

- (1) Included in the gross shares vested during the period ended December 31, 2010 are 35,119 shares of Class A Common Stock which were surrendered by recipients in order to fulfill their tax withholding obligations.

The fair value of nonvested shares under the Company's New Stock Plan is determined based on the closing price of the Company's Class A Common Stock on the grant date. As of December 31, 2010 and 2009, the weighted-average grant date fair values of nonvested shares were \$4.4 million and \$8.2 million, respectively. As of December 31, 2010, there was \$1.4 million of total unrecognized compensation cost related to nonvested restricted stock arrangements to be recognized over a weighted-average period of approximately 1 year.

During 2010 and 2009, the Company granted 550,000 and 351,625 restricted stock units, respectively, each of which represented the right to a share of the Company's Class A Common Stock if the Company achieved certain earnings targets over a performance period.

During 2010, in recognition of changing economic conditions and to ensure the continued retention and motivation of key employees, the Company's Compensation Committee approved modifications to the performance conditions associated with the restricted stock units issued during 2010 and 2009. The modifications effectively replaced performance condition vesting triggers with service period vesting triggers. Consistent with requirements of ASC Topic 718, *Compensation – Stock Compensation*, the awards are being amortized over the requisite service period on a prospective basis from the date the Compensation Committee approved the removal of the performance conditions (December 3, 2010), which is deemed to be the grant date for accounting purposes.

---

## Table of Contents

A summary of the restricted stock units issued under the Company's New Stock Plan that have not vested as of December 31, 2010 and changes during the year ended December 31, 2010 is as follows:

| (in thousands, except share data) | Shares         |           | Weighted<br>Average Grant<br>Date Value (1) |
|-----------------------------------|----------------|-----------|---|
| Nonvested at December 31, 2009    | 260,375        | \$        | 4.62  |
| Granted                           | 550,000        |           | 5.48  |
| Forfeitures                       | (90,375)       |           | 5.31  |
| Nonvested at December 31, 2010    | <u>720,000</u> | <u>\$</u> | <u>5.19</u>                                 |

- (1) The weighted average grant date value included in the table above was adjusted to reflect the impact of the modifications approved on December 3, 2010 to the March 2010 and 2009 awards.

The fair value of nonvested restricted stock units is determined based on the closing price of the Company's Class A Common Stock on the grant date. As of December 31, 2010 and 2009, the weighted-average grant date fair values of nonvested restricted stock units were \$6.3 million and \$2.4 million, respectively. As of December 31, 2010, there was \$3.2 million of total unrecognized compensation cost related to nonvested restricted stock units to be recognized over a weighted-average period of approximately 1.7 year.

### Non-Employee Equity Compensation

On August 11, 2006, in connection with Mark Burnett's continued services as executive producer of the syndicated daytime television show, *The Martha Stewart Show*, the Company issued to Mr. Burnett a warrant to purchase up to 833,333 shares of Class A Common Stock at an exercise price of \$12.59 per share, subject to vesting pursuant to certain performance criteria. During 2007, the warrant vested with respect to one-half the shares and was exercised on a cashless basis, pursuant to which Mr. Burnett acquired 154,112 shares and forfeited 262,555 shares based on the closing price of the Class A Common Stock of \$19.98 the day prior to exercise. The balance of this warrant vested later in 2007 and remained outstanding as of December 31, 2010.

Mr. Burnett's warrant was issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended. The warrant issued to Mr. Burnett is not covered by the Company's existing equity plans. In connection with the warrant, the Company also entered into a registration rights agreement with Mr. Burnett and the Company thereafter registered the shares covered under the warrant agreement, in addition to certain other shares, pursuant to a registration statement on Form S-3 filed with the SEC.

## 10. INCOME TAXES

The Company follows ASC Topic 740, *Income Taxes* ("ASC 740"). Under the asset and liability method of ASC 740, deferred assets and liabilities are recognized for the future costs and benefits attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The Company periodically reviews the requirements for a valuation allowance and makes adjustments to such allowances when changes in circumstances result in changes in the Company's judgment about the future realization of deferred tax assets. ASC 740 places more emphasis on historical information, such as the Company's cumulative operating results and its current year results than it places on estimates of future taxable income. Therefore the Company has established a valuation allowance of \$77.0 million against certain deferred tax assets for 2010. In addition, the Company has recorded a net deferred tax liability of \$4.5 million which is attributable to differences between the financial statement carrying amounts of past acquisitions of certain indefinite-lived intangible assets and their respective tax bases. The Company intends to maintain a valuation allowance until evidence would support the conclusion that it is more likely than not that the deferred tax asset could be realized.

## Table of Contents

The (provision)/benefit for income taxes consists of the following for the years ended December 31, 2010, 2009, and 2008:

| (in thousands)   | 2010              | 2009              | 2008              |
|--|-------------------|-------------------|-------------------|
| <b>Current Income Tax (Expense)/Benefit</b>            |                   |                   |                   |
| Federal  | \$ —              | \$ (40)           | \$ 175            |
| State and local  | (236)             | (207)             | (80)              |
| Foreign  | (154)             | (132)             | (555)             |
| <b>Total current income tax (expense)/benefit</b>      | <b>(390)</b>      | <b>(379)</b>      | <b>(460)</b>      |
| <b>Deferred Income Tax Expense</b>                     |                   |                   |                   |
| Federal  | (1,133)           | (1,112)           | (1,582)           |
| State and local  | (194)             | (235)             | (272)             |
| <b>Total deferred income tax expense</b>               | <b>(1,327)</b>    | <b>(1,347)</b>    | <b>(1,854)</b>    |
| <b>Income tax provision from continuing operations</b> | <b>\$ (1,717)</b> | <b>\$ (1,726)</b> | <b>\$ (2,314)</b> |

A reconciliation of the federal income tax (provision)/benefit from continuing operations at the statutory rate to the effective rate for the years ended December 31, 2010, 2009, and 2008 is as follows:

| (in thousands)  | 2010              | 2009              | 2008              |
|---|-------------------|-------------------|-------------------|
| Computed tax benefit at the federal statutory rate of 35% | \$ 2,757          | \$ 4,499          | \$ 4,673          |
| State income taxes, net of federal benefit                | (130)             | (99)              | (51)              |
| Non-deductible compensation                               | (532)             | (1,414)           | (1,756)           |
| Non-deductible expense                                    | (156)             | (153)             | (170)             |
| Tax on foreign income                                     | (154)             | (132)             | (555)             |
| Valuation allowance                                       | (3,681)           | (4,332)           | (4,629)           |
| Other   | 179               | (95)              | 174               |
| <b>Provision for income taxes</b>                         | <b>\$ (1,717)</b> | <b>\$ (1,726)</b> | <b>\$ (2,314)</b> |
| <b>Effective tax rate</b>                                 | <b>21.8%</b>      | <b>13.4%</b>      | <b>17.3%</b>      |

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2010 and 2009 were as follows:

| (in thousands)                            | 2010              | 2009              |
|---|-------------------|-------------------|
| <b>Deferred Tax Assets</b>                |                   |                   |
| Provision for doubtful accounts           | \$ 917            | \$ 781            |
| Accrued rent                              | 1,504             | 1,344             |
| Reserve for newsstand returns             | 272               | 590               |
| Accrued compensation                      | 8,322             | 7,637             |
| Deferred royalty revenue                  | 275               | 624               |
| NOL/credit carryforwards                  | 51,736            | 49,722            |
| Depreciation                              | 5,889             | 5,015             |
| Amortization of intangible assets         | 7,748             | 7,938             |
| Other                                     | 1,108             | 1,014             |
| <b>Total deferred tax assets</b>          | <b>77,771</b>     | <b>74,665</b>     |
| <b>Deferred Tax Liabilities</b>           |                   |                   |
| Prepaid expenses                          | (808)             | (1,358)           |
| Amortization of intangible assets         | (4,527)           | (3,225)           |
| <b>Total deferred tax liabilities</b>     | <b>(5,335)</b>    | <b>(4,583)</b>    |
| Valuation allowance                       | (76,963)          | (73,282)          |
| <b>Net Deferred Tax Asset/(Liability)</b> | <b>\$ (4,527)</b> | <b>\$ (3,200)</b> |

---

## [Table of Contents](#)

At December 31, 2010, the Company had aggregate federal net operating loss carryforwards of \$106.2 million (before-tax), which will be available to reduce future taxable income through 2030, with the majority expiring in years 2024 and 2025. The Company has federal and state tax credit carryforwards of \$2.7 million which begin to expire in 2014. To the extent that the Company achieves positive net income in the future, the net operating loss and credits carryforwards may be utilized and the Company's valuation allowance will be adjusted accordingly.

ASC 740 further establishes guidance on the accounting for uncertain tax positions. As of December 31, 2010, the Company had an ASC 740 liability balance of \$0.30 million. Of this amount, \$0.22 million represented unrecognized tax benefits, which if recognized at some point in the future would favorably impact the effective tax rate, and \$0.08 million is interest. The Company continues to treat interest and penalties due to a taxing authority on unrecognized tax positions as interest and penalty expense. As of December 31, 2010 and December 31, 2009, the Company had recorded \$0.08 million and \$0.06 million, respectively, of accrued interest and penalties in the consolidated balance sheets. Following is a reconciliation of the Company's total gross unrecognized tax benefits for the year-to-date period ended December 31, 2010.

| (in thousands)   | 2010          | 2009          |
|--|---------------|---------------|
| Gross balance at January 1                                   | \$ 131        | \$ 151        |
| Additions based on tax positions related to the current year | —             | —             |
| Additions for tax positions of prior years                   | 82            | —             |
| Reductions for tax positions of prior years                  | —             | —             |
| Settlements  | —             | (20)          |
| Reductions due to lapse of applicable statute of limitations | —             | —             |
| Gross balance at December 31                                 | 213           | 131           |
| Interest and penalties                                       | 82            | 58            |
| Balance including interest and penalties at December 31      | <u>\$ 295</u> | <u>\$ 189</u> |

The Company is no longer subject to U.S. federal income tax examinations by tax authorities for the years before 2005 and state examinations for the years before 2003. The Company anticipates that the liability will decrease by approximately \$0.2 million over the next 12 months.

## 11. COMPREHENSIVE LOSS

Comprehensive loss is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The Company's comprehensive loss includes net loss and unrealized gains and losses on available-for-sale securities. Total comprehensive loss for the years ended December 31, 2010 and 2009, was \$10.0 million and \$14.3 million, respectively.

## 12. RELATED PARTY TRANSACTIONS

On June 13, 2008, the Company entered into an intangible asset license agreement (the "Intangible Asset License Agreement") with MS Real Estate Management Company ("MSRE"), an entity owned by Martha Stewart. The Intangible Asset License Agreement is retroactive to September 18, 2007 and has a five-year term.

Pursuant to the Intangible Asset License Agreement, the Company pays an annual fee of \$2.0 million to MSRE for the perpetual, exclusive right to use Ms. Stewart's lifestyle intangible asset in connection with Company products and services and to access various real properties owned by Ms. Stewart during the term of the agreement. On February 8, 2010, the Company executed an amendment to the Intangible Asset License Agreement. Pursuant to the amendment, for 2010 only, the annual fee of \$2.0 million that would otherwise be payable on or about September 15, 2010 was reduced to \$1.95 million and paid in two installments, the first of which was \$0.95 million and was paid on February 9, 2010; the remainder of the payment was made on September 15, 2010 as originally scheduled.

---

## [Table of Contents](#)

MSRE is responsible, at its expense, to maintain, landscape and garden the properties in a manner consistent with past practices; provided, however, that the Company is responsible for approved business expenses associated with security and telecommunications systems and security personnel related to Ms. Stewart at the properties, and will reimburse MSRE for up to \$0.1 million of approved and documented household expenses. In each of the years ended December 31, 2010 and 2009, the Company reimbursed MSRE \$0.1 million for approved and documented household expenses.

The Company also reimbursed MSRE for certain costs borne by MSRE associated with various Company business activities which were conducted at properties covered by the Intangible Asset License Agreement. For the year ended December 31, 2010, the Company reimbursed MSRE \$0.1 million for these costs. No similar costs were reimbursed in 2009.

On February 28, 2001, the Company entered into a Split-Dollar Agreement with Martha Stewart and The Martha Stewart Family Limited Partnership (the "MS Partnership"), under which the Company agreed to pay a significant portion of the premiums on whole life policies insuring Ms. Stewart. The policies were owned by and benefited the MS Partnership. Because of uncertainty whether such arrangements constituted prohibited loans to executive officers and directors after the enactment of the Sarbanes-Oxley Act in 2002, the Split-Dollar Agreement was amended so that the Company would not be obligated to make further premium payments after 2002.

Because the intent of the agreement was frustrated by the enactment of Sarbanes-Oxley and so that the parties could realize the existing cash surrender value of the policies rather than risking depleting the future surrender value, the Company, Ms. Stewart and the MS Partnership terminated the Split-Dollar Agreement, as amended, effective November 9, 2009. In connection with the termination, the MS Partnership has agreed to surrender and cancel the policies subject to the Split-Dollar Agreement for their cash surrender value as of such date. As part of the arrangement the Company reimbursed the MS Partnership approximately \$300,000 for the premiums paid towards the policies (which amount, if determined to be taxable, would be subject to a tax gross-up).

In April 2009, the Company entered into an amended and restated employment agreement with Martha Stewart which replaced the existing agreement between the Company and Ms. Stewart that was scheduled to expire in September 2009. The new agreement extends until March 31, 2012. During the term of the agreement, Ms. Stewart is entitled to talent compensation of \$2.0 million per year. In addition, she is entitled to an annual bonus in an amount determined by the Compensation Committee, with a target bonus equal to \$1.0 million and a maximum annual bonus of 150% of the target amount. Ms. Stewart received a \$3.0 million make whole/retention payment in connection with the execution of the agreement, which amount is subject to pro-rata forfeiture in the event Ms. Stewart terminates the agreement without good reason or the Company terminates the agreement with cause.

The Company previously had a consulting agreement with CAK Entertainment, Inc. ("CAK Entertainment"), an entity for which Mr. Charles Koppelman serves as Chairman and Chief Executive Officer. Mr. Koppelman had been Chairman of the Board and a Director of the Company since the execution of the agreement.

In July 2008, the Board of Directors of the Company appointed Mr. Koppelman as Executive Chairman and the principal executive officer of the Company. An employment agreement was executed with Mr. Koppelman in September 2008. In accordance with the employment agreement, the consulting agreement with CAK Entertainment was terminated. The balance of cash fees due to CAK Entertainment were paid and the outstanding equity awards made under the consulting agreement became fully vested, which resulted in a cash charge of \$1.0 million and a non-cash charge of \$0.5 million in the third quarter of 2008.

As part of his services as Chairman of the Board, Mr. Koppelman received an annual retainer of \$0.1 million in 2008.

---

## [Table of Contents](#)

Related party compensation expense includes salary, bonus and non-cash equity compensation as determined under ASC Topic 718. Alexis Stewart, the daughter of Martha Stewart, is a beneficial owner of more than 10% of the Company's stock. She has been employed by the Company and has served as a co-host of a Company television show and a co-host of a Company radio show. The Company paid Alexis Stewart aggregate compensation of \$0.4 million, \$0.4 million and \$0.2 million in 2010, 2009 and 2008, respectively. The Company also employs certain other members of Martha Stewart's and Charles Koppelman's family. Aggregate compensation for these employees was \$0.7 million, \$0.6 million and \$0.5 million in 2010, 2009 and 2008, respectively.

The Company has determined that certain of its investments represent interests in VIEs. The Company derives digital advertising revenues from these VIEs, a portion of which are payable to the VIEs. For the year ended December 31, 2010, total revenues and payables from these investments were \$0.5 million and \$0.2 million, respectively. For the year ended December 31, 2009, total revenues and payables from these investments were \$0.6 million and \$0.1 million, respectively.

For the years ended December 31, 2010, 2009, and 2008, respectively, the Company made charitable contributions of \$0.02 million, \$0.04 million, and \$0.02 million to a foundation with which Martha Stewart is affiliated.

### 13. COMMITMENTS AND CONTINGENCIES

#### *Operating Leases*

The Company leases office facilities, filming locations, and equipment under operating lease agreements. The lease for the Company's television production facilities at 221 West 26<sup>th</sup> Street and its executive and administrative office for television production at 226 West 26<sup>th</sup> Street expired in 2010 and is currently in the process of being negotiated for renewal. The other leases for these offices and facilities expire between 2012 and 2018, and some of these leases are subject to the Company's renewal. In 2009, the Company consolidated certain of its offices by relocating the Company's principal executive and administrative offices, as well as a portion of the Company's Publishing segment offices and advertising sales offices from 11 West 42nd Street to 601 West 26th Street. The Company entered into a sublease agreement in 2008 for a portion of its office space at 11 West 42nd Street; the Company vacated that office space in March 2009. Total rent expense charged to operations for all such leases, including the Company's television production facilities and television administrative offices, was approximately \$14.0 million, \$15.2 million, and \$15.6 million for the years ended December 31, 2010, 2009 and 2008, respectively, net of sublease income of \$1.3 million and \$0.7 million in 2010 and 2009, respectively. No sublease income was recorded in during the year ended December 31, 2008. Rent expense for operating leases, which may include free rent or fixed escalation amounts in addition to minimum lease payments, is recognized on a straight-line basis over the duration of each lease term.

The following is a schedule of future minimum payments under operating leases at December 31, 2010, including the future minimum payments under the current terms of the television production studio and administrative office operating lease which is currently being negotiated. The table includes total minimum lease payment commitments which include rent and other charges:

| (in thousands) | Operating<br>Lease Payments | Sublease<br>Income | Net Operating<br>Lease Payments |
|----------------|-----------------------------|--------------------|---------------------------------|
| 2011           | \$ 15,683                   | \$ 1,698           | \$ 13,985                       |
| 2012           | 15,326                      | 1,065              | 14,261                          |
| 2013           | 14,418                      | 402                | 14,016                          |
| 2014           | 13,457                      | 414                | 13,043                          |
| 2015           | 10,959                      | 426                | 10,533                          |
| Thereafter     | 16,756                      | 439                | 16,317                          |
| Total          | \$ 86,599                   | \$ 4,444           | \$ 82,155                       |

Operating lease obligations are shown net of sublease income in this table.

---

## [Table of Contents](#)

### ***Legal Matters***

The Company is party to legal proceedings in the ordinary course of business, including product liability claims for which the Company is indemnified by its licensees. None of these proceedings is deemed material.

### ***Other***

The Company has a line of credit with Bank of America in the amount of \$5.0 million, which is generally used to secure outstanding letters of credit. The Company had no outstanding borrowings under this facility as of December 31, 2010 and had letters of credit of \$2.6 million as security for certain leases. The Company entered into a loan agreement with Bank of America in the amount of \$30.0 million related to the acquisition of certain assets of Emeril Lagasse. The loan balance was \$9.0 million as of December 31, 2010. See Note 7 for further information.

## **14. ACQUISITION OF BUSINESS**

On April 2, 2008, the Company acquired all of the assets related to the business of Chef Emeril Lagasse other than his restaurant business and Foundation for consideration of approximately \$45.0 million in cash and 674,852 in shares of the Company's Class A Common Stock which equaled a value of \$5.0 million at closing. The shares issued in connection with this acquisition were not covered by the Company's existing equity plans. The acquisition agreement also includes a potential additional payment of up to \$20 million, in 2013, based upon the achievement of certain operating metrics in 2011 and 2012, a portion of which may be payable, at the Company's election, in shares of the Company's Class A Common Stock.

The Company acquired the assets related to chef Emeril Lagasse to further the Company's diversification strategy and help grow the Company's operating results. Consistent with ASC Topic 805, *Business Combinations*, this acquisition was accounted for under purchase accounting. While the primary assets purchased in the transaction were certain trade names valued at \$45.2 million, as well as a television content library valued at \$5.2 million, \$0.9 million of the value, representing the excess purchase price over the fair market value of the assets acquired, was apportioned to goodwill. To the extent that the certain operating metrics are achieved in 2011 and 2012, the potential additional payment will be allocated to the acquisition and will be recognized as goodwill.

Of the intangible assets acquired, only the television content library is subject to amortization over a six-year period, which will be expensed based upon future estimated cash flows. As of December 31, 2010, the unamortized portion of this finite-lived intangible asset is \$1.3 million. For the year ended December 31, 2010, \$0.5 million was charged to amortization expense and accumulated amortization related to this asset.

## Table of Contents

The results of operations for the acquisition have been included in the Company's consolidated financial statements of operations since April 2, 2008, and are recorded in the Broadcasting and Merchandising segments in accordance with the nature of the underlying contracts. The following unaudited pro forma financial information presents a summary of the results of operations assuming the acquisition occurred at the beginning of 2008:

| (unaudited, in thousands, except per share amounts) | Year Ended<br>December 31, 2008 |
|---|---------------------------------|
| Net revenues  | \$ 287,528                      |
| Net loss  | (13,050)                        |
| Net loss per share — basic and diluted              | \$ (0.24)                       |

Pro forma adjustments have been made to reflect amortization using asset values recognized after applying purchase accounting adjustments, to record incremental compensation costs and to record amortization of deferred financing costs and interest expense related to the long-term debt incurred to fund a part of the acquisition. No tax adjustment was necessary due to the benefit of the Company's net operating loss carryforwards. The pro forma loss per share amounts are based on the pro forma number of shares outstanding as of December 31, 2008, which include the shares issued by the Company as a portion of the total consideration for the acquisition.

The pro forma condensed consolidated financial information is presented for information purposes only. The pro forma condensed consolidated financial information should not be construed to be indicative of the combined results of operations that might have been achieved had the acquisition been consummated at the beginning of each period presented, nor is it necessarily indicative of the future results of the combined company.

### 15. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) (in thousands except per share data)

| Year ended December 31, 2010               | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total       |
|--|------------------|-------------------|------------------|-------------------|-------------|
| Revenues                                   | \$ 53,236        | \$ 55,299         | \$ 49,688        | \$ 72,590         | \$ 230,813  |
| Operating (loss) / income                  | (3,369)          | (803)             | (7,908)          | 3,417             | (8,663)     |
| Net (loss) / income                        | \$ (3,865)       | \$ (1,249)        | \$ (8,586)       | \$ 4,104          | \$ (9,596)  |
| (Loss)/earnings per share — basic          | \$ (0.07)        | \$ (0.02)         | \$ (0.16)        | \$ 0.08           | \$ (0.18)   |
| (Loss)/earnings per share — diluted        | \$ (0.07)        | \$ (0.02)         | \$ (0.16)        | \$ 0.07           | \$ (0.18)   |
| Weighted average common shares outstanding |                  |                   |                  |                   |             |
| Basic                                      | 54,327           | 54,389            | 54,487           | 54,512            | 54,440      |
| Diluted                                    | 54,327           | 54,389            | 54,487           | 55,789            | 54,440      |
| Year ended December 31, 2009               | First<br>Quarter | Second<br>Quarter | Third<br>Quarter | Fourth<br>Quarter | Total       |
| Revenues                                   | \$ 50,430        | \$ 56,996         | \$ 49,780        | \$ 87,571         | \$ 244,777  |
| Operating (loss)/income                    | (15,486)         | (6,102)           | (11,681)         | 21,301            | (11,968)    |
| Net (loss)/income                          | \$ (16,844)      | \$ (6,374)        | \$ (12,113)      | \$ 20,753         | \$ (14,578) |
| (Loss)/earnings per share — basic          | \$ (0.31)        | \$ (0.12)         | \$ (0.22)        | \$ 0.38           | \$ (0.27)   |
| (Loss)/earnings per share — diluted        | \$ (0.31)        | \$ (0.12)         | \$ (0.22)        | \$ 0.37           | \$ (0.27)   |
| Weighted average common shares outstanding |                  |                   |                  |                   |             |
| Basic                                      | 53,766           | 53,820            | 53,865           | 54,065            | 53,880      |
| Diluted                                    | 53,766           | 53,820            | 53,865           | 55,620            | 53,880      |

Note: Basic and diluted earnings per share are computed independently for each quarter and full year presented. Accordingly, the sum of the quarterly earnings per share data may not agree with the calculated full year earnings per share

---

[Table of Contents](#)**First Quarter 2009 Items:**

Results included a non-cash impairment charge of \$7.1 million related to the Company's cost-based equity investment in United Craft MS Brands, LLC.

**Second Quarter 2009 Items:**

Results included a non-cash impairment charge of \$5.5 million related to the Company's cost-based equity investment in United Craft MS Brands, LLC.

**Fourth Quarter 2009 Items:**

Results included the \$10.0 million recognition of previously deferred royalties associated with Kmart. Additionally, results included revenue from the conclusion of the Company's relationship with TurboChef and a \$3.0 million make-whole payment received by the Company.

**16. BUSINESS SEGMENTS**

The Company's business segments are discussed in Note 1. In 2010, the Company announced its plan to report a "new" Publishing segment which encompasses the Company's print and digital distribution platforms that were previously reported in the Company's Publishing and Internet segments. The Company has been continuing to execute its strategy to leverage its core content across its print and digital platforms more efficiently by further centralizing the creative process. In addition, during the fourth quarter of 2010, the Company reorganized its advertising sales force to centralize selling efforts across all media. As a result of these fundamental changes in the way it views its business, the Company evaluated its operating segments and determined that the print and digital platforms no longer met the definition of separate operating segments in accordance with ASC 280. The new Publishing segment provides management with a more meaningful assessment of the operating performance of the Company's print and digital platforms. All Publishing operating segment data has been restated to reflect the results of the new Publishing operating segment.

The accounting policies for the Company's business segments are the same as those described in Note 2. Segment information for the years ended December 31, 2010, 2009, and 2008 is as follows:

| (in thousands)                               | Publishing | Broadcasting | Merchandising | Corporate | Consolidated |
|--|------------|--------------|---------------|-----------|--------------|
| <b>2010</b>                                  |            |              |               |           |              |
| Revenues                                     | \$ 145,573 | \$ 42,434    | \$ 42,806     | \$ —      | \$ 230,813   |
| Non-cash equity compensation                 | 552        | 230          | 803           | 3,816     | 5,401        |
| Depreciation and amortization                | 1,127      | 878          | 43            | 2,584     | 4,632        |
| Operating income/(loss)                      | 2,650      | (1,578)      | 25,001        | (34,736)  | (8,663)      |
| Total assets                                 | 91,914     | 39,092       | 73,659        | 17,649    | 222,314      |
| Capital expenditures                         | 815        | 843          | 10            | 3,039     | 4,707        |
| <b>2009</b>                                  |            |              |               |           |              |
| Revenues                                     | \$ 146,100 | \$ 46,111    | \$ 52,566     | \$ —      | \$ 244,777   |
| Non-cash equity compensation                 | 1,233      | 889          | 1,468         | 4,357     | 7,947        |
| Depreciation and amortization                | 2,191      | 1,389        | 62            | 4,232     | 7,874        |
| Impairment charge — other asset              | —          | —            | 11,432        | —         | 11,432       |
| Operating income/(loss)                      | (169)      | 6,140        | 25,651        | (43,590)  | (11,968)     |
| Total assets                                 | 92,393     | 27,458       | 75,711        | 34,229    | 229,791      |
| Capital expenditures                         | 337        | 23           | 99            | 8,150     | 8,609        |
| <b>2008</b>                                  |            |              |               |           |              |
| Revenues                                     | \$ 179,116 | \$ 47,328    | \$ 57,866     | \$ —      | \$ 284,310   |
| Non-cash equity compensation                 | 3,085      | 807          | 1,038         | 3,596     | 8,526        |
| Depreciation and amortization                | 2,116      | 2,578        | 90            | 3,189     | 7,973        |
| Impairment charge — Goodwill and Other asset | 9,349      | —            | —             | —         | 9,349        |
| Operating income/(loss)                      | 1,628      | 2,780        | 32,858        | (48,123)  | (10,857)     |
| Total assets                                 | 95,242     | 25,608       | 83,307        | 57,128    | 261,285      |
| Capital expenditures                         | 465        | 199          | 37            | 2,163     | 2,864        |

---

[Table of Contents](#)

**17. OTHER INFORMATION**

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses. The carrying amount of these accounts approximates fair value.

The Company's revenues from foreign sources were \$6.5 million, \$10.8 million and \$13.4 million in 2010, 2009 and 2008, respectively.

The Company's revenues from Kmart Corporation — which predominately are included in the Merchandising segment — relative to the Company's total revenues were approximately 1% for 2010, 11% for 2009 and 10% for 2008.

Advertising expense, including subscription acquisition costs, was \$14.3 million, \$14.8 million, and \$19.2 million for 2010, 2009, and 2008, respectively.

Production, distribution and editorial expenses; selling and promotion expenses; and general and administrative expenses are all presented exclusive of depreciation and amortization and impairment charges, which are shown separately within "Operating Costs and Expenses."

Interest paid in 2010, 2009, and 2008 was \$0.5 million, \$0.5 million, and \$0.9 million, respectively, and is related to the Company's loan with Bank of America.

Income taxes paid were \$0.5 million for 2010. Income taxes paid were \$0.3 million for 2009 and \$1.1 million for 2008.

**18. SUBSEQUENT EVENTS**

On March 1, 2011, the Company made awards to certain employees pursuant to the New Stock Plan. The awards consisted, in the aggregate, of 1,025,500 options with an exercise price of \$3.95 per share (the closing price on the date of issuance), which options vest 33% on each of March 1, 2012 and 2013 and 34% on March 1, 2014, and 145,000 restricted stock units, each of which represents the right to a share of the Company's Class A Common Stock, of which 140,000 restricted stock units vest 50% on each of March 1, 2012 and March 1, 2013 and 5,000 vest 25% on each of the first four anniversaries. The Company will measure the grant date fair value of these awards as of the date of issuance and will recognize the fair value over the remaining service period of the awards.

In the first quarter of 2011, the Company anticipated that it would not be in compliance with the covenants of its loan agreement for its term loan with Bank of America that require the Company to maintain Tangible Net Worth of at least \$40 million as of March 31, 2011, as well as to maintain a Funded Debt to EBITDA Ratio equal to or less than 2.0 and a Parent Guarantor Basic Fixed Charge Ratio equal to or greater than 2.75 for the twelve month period ending June 30, 2011. As a result, the Company executed an amendment to the loan agreement, which requires the Company to maintain Tangible Net Worth of at least \$35 million that applies to the first quarter of 2011, and with respect to the other two covenants, the Company executed a waiver that excludes these adjusted EBITDA-related covenants in their entirety for the second quarter of 2011.

[Table of Contents](#)

**MARTHA STEWART LIVING OMNIMEDIA, INC.**  
**SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS**  
(in thousands)

| Description   | Balance,<br>Beginning of<br>Year | Additions<br>Charged to Revenues,<br>Costs and<br>Expenses | Additions/<br>(Deductions)<br>Charged<br>to<br>Balance Sheet<br>Accounts | (Deductions)<br>Charged to<br>Revenues,<br>Costs and<br>Expenses | Balance,<br>End of Year |
|---|----------------------------------|--|--|--|-------------------------|
| <b>Allowance for doubtful accounts:</b>                           |                                  |  |  |  |                         |
| Year ended December 31,   |                                  |  |  |  |                         |
| 2010  | \$ 1,351                         | \$ 774   | \$ (623)   | \$ —   | \$ 1,502                |
| 2009  | 1,502                            | 563  | (714)  | —  | 1,351                   |
| 2008  | 1,247                            | 399  | (144)  | —  | 1,502                   |
| <b>Reserve for audience underdelivery:</b>                        |                                  |  |  |  |                         |
| Year ended December 31,   |                                  |  |  |  |                         |
| 2010  | \$ 2,857                         | \$ 2,065   | \$ (3,605)   | \$ (1,317)   | \$ —                    |
| 2009  | 1,869                            | 2,434  | (336)  | (1,110)  | 2,857                   |
| 2008  | 3,542                            | 1,563  | (125)  | (3,111)  | 1,869                   |
| <b>Reserve for valuation allowance on the deferred tax asset:</b> |                                  |  |  |  |                         |
| Year ended December 31,   |                                  |  |  |  |                         |
| 2010  | 73,282                           | 3,681  | —  | —  | 76,963                  |
| 2009  | 68,003                           | 4,332  | 947  | —  | 73,282                  |
| 2008  | 63,277                           | 4,629  | 97   | —  | 68,003                  |

---

[Table of Contents](#)

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Exhibit Title</b>  |
|---------------------------|---|
| 3.1                       | — Martha Stewart Living Omnimedia, Inc.'s Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1,   |
| 3.2                       | — Martha Stewart Living Omnimedia, Inc.'s By-Laws (incorporated by reference to Exhibit 3.2 to our Quarterly Report on Form 10-Q (file number 001-1539  |
| 4.1                       | — Warrant to purchase shares of Class A Common Stock, dated August 11, 2006 (incorporated by reference to Exhibit 4.2 to our Quarterly Report on Form 10-Q ("September, 2006 10-Q")).   |
| 10.1†                     | — 1999 Stock Incentive Plan (incorporated by reference to the Registration Statement), as amended by Exhibits 10.1.1, 10.1.2 and 10.1.3.  |
| 10.1.1†                   | — Amendment No. 1 to the 1999 Stock Incentive Plan, dated as of March 9, 2000 (incorporated by reference to our Annual Report on Form 10-K for the year   |
| 10.1.2†                   | — Amendment No. 2 to the Amended and Restated 1999 Stock Incentive Plan, dated as of May 11, 2000 (incorporated by reference to our Quarterly Report on Form 10-Q ("September, 2006 10-Q")).  |
| 10.1.3†                   | — Amendment No. 3 to the Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to our Current Report on Form 8-K filed on May 17,   |
| 10.2†                     | — 1999 Non-Employee Director Stock and Option Compensation Plan (incorporated by reference to the Registration Statement) as amended by Exhibit 10.2.   |
| 10.2.1†                   | — Amendment No. 1 to the Martha Stewart Living Omnimedia, Inc. Non-Employee Director Stock and Option Compensation Plan (incorporated by reference to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2008 ("September 2008 10-Q")), as amended by Exhibit 10.5.1.                        |
| 10.3                      | — Form of Intellectual Property License and Preservation Agreement, dated as of October 22, 1999, by and between Martha Stewart Living Omnimedia, Inc. and Charles A. Koppelman (incorporated by reference to our Registration Statement).  |
| 10.4†                     | — Director Compensation Program (incorporated by reference to Exhibit 10.26 to our Annual Report on Form 10-K (file number 001-15395) for the year ended  |
| 10.5†                     | — Employment Agreement, dated as of September 17, 2008, between Martha Stewart Living Omnimedia, Inc. and Charles A. Koppelman (incorporated by reference to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2008 ("September 2008 10-Q")), as amended by Exhibit 10.5.1.                 |
| 10.5.1†                   | — Amendment dated as of October 29, 2010 to the Employment Agreement, dated as of September 17, 2008, between Martha Stewart Living Omnimedia, Inc. and Charles A. Koppelman (incorporated by reference to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2010 ("September 2010 10-Q")). |
| 10.6                      | — Lease, dated August 20, 1999, between 601 West Associates LLC and Martha Stewart Living Omnimedia LLC (incorporated by reference to Exhibit 10.12   |

---

## [Table of Contents](#)

### **Exhibit**

#### **Number**

#### **Exhibit Title**

|         |   |  |
|---------|---|--|
| 10.6.1  | — | First Lease Modification Agreement, dated December 24, 1999, between 601 West Associates LLC and Martha Stewart Living Omnimedia, Inc. (incorporated by reference to Exhibit 10.6)   |
| 10.6.2  | — | Sixth Lease Modification Agreement, dated as of June 14, 2007, between 601 West Associates LLC and Martha Stewart Living Omnimedia, Inc (incorporated by reference to Exhibit 10.6)  |
| 10.7    | — | Lease, dated as of October 1, 2000, between Newtown Group Properties Limited Partnership and Martha Stewart Living Omnimedia, Inc. (incorporated by reference to Exhibit 10.7)   |
| 10.8†   | — | Employment Agreement, dated as of September 17, 2008, between Martha Stewart Living Omnimedia, Inc. and Robin Marino (incorporated by reference to Exhibit 10.8)   |
| 10.9†   | — | Letter Agreement, dated as of September 1, 2009, between Martha Stewart Living Omnimedia, Inc. and Peter Hurwitz (incorporated by reference to Exhibit 10.9)   |
| 10.10†  | — | Amended and Restated Employment Agreement, dated as of April 1, 2009, between Martha Stewart Living Omnimedia, Inc. and Martha Stewart (incorporated by reference to Exhibit 10.10)  |
| 10.11   | — | Intangible Asset License Agreement, dated as of June 13, 2008, between Martha Stewart Living Omnimedia, Inc. and MS Real Estate Management Company (incorporated by reference to Exhibit 10.11)  |
| 10.11.1 | — | First Amendment, dated as of December, 2008, to the Intangible Asset License Agreement between MS Real Estate Management Company and Martha Stewart Living Omnimedia, Inc. (incorporated by reference to Exhibit 10.11)  |
| 10.11.2 | — | Second Amendment, dated as of February 8, 2010, to the Intangible Asset License Agreement between MS Real Estate Management Company and Martha Stewart Living Omnimedia, Inc. (incorporated by reference to Exhibit 10.11)   |
| 10.12†  | — | Employment Agreement, dated as of March 24, 2009, between Martha Stewart Living Omnimedia, Inc. and Kelli Turner (incorporated by reference to Exhibit 10.12)  |
| 10.13†  | — | 2005 Executive Severance Pay Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (file number 001-15395) filed on January 24, 2005)  |
| 10.14†  | — | Form of Restricted Stock Award Agreement for use under the Martha Stewart Living Omnimedia, Inc. Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.14 to our Current Report on Form 8-K (file number 001-15395) filed on January 24, 2005) |
| 10.15†  | — | Registration Rights Agreement between Charles A. Koppelman and Martha Stewart Living Omnimedia, Inc. dated January 24, 2005 (incorporated by reference to Exhibit 10.15 to our Current Report on Form 8-K (file number 001-15395) filed on January 24, 2005)                     |

---

## [Table of Contents](#)

| <b>Exhibit</b> |  |
|----------------|--|
| <b>Number</b>  | <b>Exhibit Title</b>   |
| 10.16          | — Warrant Registration Rights Agreement, dated as of August 11, 2006, between Martha Stewart Living Omnimedia, Inc. and Mark Burnett (incorporated by reference to Exhibit 10.16 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended June 30, 2007) |
| 10.17†         | — Form of Restricted Stock Unit Award Agreement under the Amended and Restated 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended June 30, 2007)                              |
| 10.18†         | — 2008 Executive Severance Pay Plan (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended June 30, 2007)   |
| 10.19          | — Publicity Rights Agreement, dated as of April 2, 2008, by and among Martha Stewart Living Omnimedia, Inc., MSLO Shared IP Sub LLC and Emeril J. L. Lagasse   |
| 10.20**        | — Amended and Restated Loan Agreement, dated as of August 7, 2009, by and among Bank of America, N.A., MSLO Emeril Acquisition Sub LLC and Martha Stewart Living Omnimedia, Inc.   |
| 10.20.1        | — Waiver and Amendment to Loan Documents, dated as of December 18, 2009, to Amended and Restated Loan Agreement dated as of August 7, 2009 among Bank of America, N.A., MSLO Emeril Acquisition Sub LLC and Martha Stewart Living Omnimedia, Inc.                                  |
| 10.20.2        | — Waiver dated as of November 1, 2010, to the Amended and Restated Loan Agreement, dated as of August 7, 2009, by and among Bank of America, N.A., MSLO Emeril Acquisition Sub LLC and Martha Stewart Living Omnimedia, Inc.   |
| 10.21          | — Security Agreement, dated as of July 31, 2008, among Martha Stewart Living Omnimedia, Inc., MSLO Emeril Acquisition Sub LLC, and Bank of America, N.A.   |
| 10.21.1        | — Waiver and Omnibus Amendment No. 1, dated as of June 18, 2009, to Loan Agreement dated as of April 4, 2008 by and among Bank of America, N.A., MSLO Emeril Acquisition Sub LLC and Martha Stewart Living Omnimedia, Inc.   |
| 10.21.2        | — Amendment No. 2, dated as of August 7, 2009, to Security Agreement dated as of July 31, 2008 among Martha Stewart Living Omnimedia, Inc., Emeril Acquisition Sub LLC and Bank of America, N.A.   |
| 10.22          | — Continuing and Unconditional Guaranty dated as of April 4, 2008 executed by Martha Stewart Living Omnimedia, Inc., MSO IP Holdings, Inc., Martha Stewart Living Omnimedia, Inc.  |
| 10.22.1        | — Reaffirmation of Guaranty, dated as of August 7, 2009, executed by Martha Stewart Living Omnimedia, Inc., MSO IP Holdings, Inc., Martha Stewart, Inc.  |

---

## [Table of Contents](#)

| <b>Exhibit<br/>Number</b> | <b>Exhibit Title</b>  |
|---------------------------|---|
| 10.23                     | — Registration Rights Agreement, dated as of April 2, 2008, by and among Martha Stewart Living Omnimedia, Inc., Emeril's Food of Love Productions, L.L.C., emerils.com, LLC and Emeril J. Lagasse, III (incorporated by reference to Exhibit 10.9 to our March 2008 10-Q).  |
| 10.24†                    | — Martha Stewart Living Omnimedia, Inc. Director Deferral Plan (incorporated by reference to Exhibit 10.46 to our Annual Report on Form 10-K (file number 001-15395) for the year ended December 31, 2008 (the "2008 10-K")).   |
| 10.25†                    | — Martha Stewart Living Omnimedia, Inc. Non-Employee Director Stock and Option Compensation Plan Deferral Election Form dated July 1, 2004 and Clarification dated December 23, 2008 between Martha Stewart Living Omnimedia, Inc. and Michael Goldstein (incorporated by reference to Exhibit 10.47 to the 2008 10-K). |
| 10.26†                    | — Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan (incorporated by reference to Exhibit 99.1 to our Current Report on Form 8-K (file number 001-15395) filed on May 20, 2008 ("May 20, 2008 8-K")).  |
| 10.27†                    | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Option Agreement and forms of related Notices (incorporated by reference to Exhibit 99.2 to our May 20, 2008 8-K).   |
| 10.28†*                   | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Unit Agreement.   |
| 10.29†                    | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Grant Agreement (incorporated by reference to Exhibit 99.4 to our May 20, 2008 8-K).  |
| 10.30†                    | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Appreciation Right Agreement and form of related Notice (incorporated by reference to Exhibit 99.5 to our May 20, 2008 8-K).   |
| 10.31†                    | — Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Grant Agreement and form of related Acknowledgement (incorporated by reference to Exhibit 99.6 to our May 20, 2008 8-K).   |
| 10.32†                    | — Form of Performance-Based Restricted Stock Unit Agreement pursuant to the Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K (file number 001-15395) filed on February 12, 2009).                          |
| 10.33†                    | — Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Grant Agreement dated October 1, 2008 between Martha Stewart Living Omnimedia, Inc. and Charles Koppelman (incorporated by reference to Exhibit 10.5 to our September 2008 10-Q).                                   |
| 10.34†                    | — Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Option Grant Agreement and form of related Notice dated October 1, 2008 between Martha Stewart Living Omnimedia, Inc. and Charles Koppelman (incorporated by reference to Exhibit 10.6 to our September 2008 10-Q).            |
| 10.35†                    | — Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Grant Agreement dated October 1, 2008 between Martha Stewart Living Omnimedia, Inc. and Robin Marino (incorporated by reference to Exhibit 10.9 to our September 2008 10-Q).  |

---

## [Table of Contents](#)

| <b>Exhibit<br/>Number</b> | <b>Exhibit Title</b>   |
|---------------------------|--|
| 10.36†                    | — Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Stock Option Grant Agreement and form of related Notice dated October 1, 2008 between Martha Stewart Living Omnimedia, Inc. and Robin Marino (incorporated by reference to Exhibit 10.10 to our September 2008 10-Q). |
| 10.37†                    | — Martha Stewart Living Omnimedia, Inc. Annual Incentive Plan (incorporated by reference to the Company's proxy statement filed in respect of its 2005 annual meeting of stockholders, dated as of April 7, 2005).   |
| 21*                       | — List of Subsidiaries.  |
| 23.1*                     | — Consent of Independent Registered Public Accounting Firm.  |
| 31.1*                     | — Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 31.2*                     | — Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32*                       | — Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

---

† indicates management contracts and compensatory plans

\* indicates filed herewith

\*\* Schedules and exhibits to this Agreement have been omitted. The Company agrees to furnish a supplemental copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request.

**MARTHA STEWART LIVING OMNIMEDIA, INC.  
OMNIBUS STOCK AND OPTION COMPENSATION PLAN**

**RESTRICTED STOCK UNIT AGREEMENT**

This Restricted Stock Unit Agreement (the "Agreement") is made and entered into as of \_\_\_\_\_, 201\_ by and between Martha Stewart Living Omnimedia, Inc., a Delaware corporation (the "Company"), and \_\_\_\_\_ pursuant to the Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan (the "Plan"). To the extent any capitalized terms used in this Agreement are not defined, they shall have the meaning ascribed to them in the Plan, which is attached to, and made a part of, this Agreement. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of this Agreement, the Plan terms and provisions shall prevail.

In consideration of the mutual agreements herein contained and intending to be legally bound hereby, the parties agree as follows:

1. Restricted Stock Units. Pursuant to the Plan, the Company hereby grants to you, and you hereby accept from the Company, \_\_\_\_\_ stock units, each of which is a bookkeeping entry representing the equivalent in value of one (1) Share (the "Restricted Stock Units"), on the terms and conditions set forth herein and in the Plan.

2. Vesting of Restricted Stock Units. So long as your Service continues, the Restricted Stock Units shall vest in accordance with the following schedule (each date specified being a "Vesting Date"):

Payments, if any, shall be made as soon as possible practicable after the applicable Vesting Date, but in any event no later than \_\_\_\_\_. Notwithstanding the foregoing, all Restricted Stock Units shall immediately vest upon a Change in Control.

3. Termination of Service. In the event of the termination of your Service for any reason, all unvested Restricted Stock Units shall be immediately forfeited without consideration.

4. Settlement of Restricted Stock Units. Restricted Stock Units shall be settled in Shares, provided that the Company shall have no obligation to issue Shares pursuant to this Agreement unless and until you have satisfied any applicable tax obligations pursuant to Section 5 below and such issuance otherwise complies with all applicable law. Prior to the time the Restricted Stock Units are settled, you will have no rights other than those of a general creditor of the Company. Restricted Stock Units represent an unfunded and unsecured obligation of the Company.

5. Withholding Taxes. You agree to make arrangements satisfactory to the Company for the satisfaction of any applicable tax obligations that arise in connection with the Restricted Stock Units which, at the sole discretion of the Committee, may include (i) having the Company withhold Shares from the settlement of the Restricted Stock Units, or (ii) any other arrangement approved by the Company, in either case, equal in value to the amount necessary to satisfy any

---

such tax obligations. The Company shall not be required to issue Shares pursuant to this Agreement unless such obligations are satisfied.

6. Tax Advice. You represent, warrant and acknowledge that the Company has made no warranties or representations to you with respect to the income tax consequences of the transactions contemplated by this Agreement, and you are in no manner relying on the Company or the Company's representatives for an assessment of such tax consequences. YOU UNDERSTAND THAT THE TAX LAWS AND REGULATIONS ARE SUBJECT TO CHANGE. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING ANY RESTRICTED STOCK UNITS. NOTHING STATED HEREIN IS INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, FOR THE PURPOSE OF AVOIDING TAXPAYER PENALTIES.

7. Non-Transferability of Restricted Stock Units. The Restricted Stock Units shall not be transferable other than by will or the laws of descent and distribution. The designation of a beneficiary or entry into a will or similar arrangement does not constitute a transfer. The terms of this Agreement shall be binding upon your executors, administrators, heirs, successors and assigns.

8. Restriction on Transfer. Regardless of whether the transfer or issuance of the Shares to be issued pursuant to the Restricted Stock Units have been registered under the Securities Act or have been registered or qualified under the securities laws of any state, the Company may impose additional restrictions upon the sale, pledge, or other transfer of the Shares (including the placement of appropriate legends on stock certificates, if any, and the issuance of stop-transfer instructions to the Company's transfer agent) if, in the judgment of the Company and the Company's counsel, such restrictions are necessary in order to achieve compliance with the provisions of the Securities Act, the securities laws of any state, or any other law.

9. Stock Certificate Restrictive Legends. Stock certificates evidencing the Shares issued pursuant to the Restricted Stock Units, if any, may bear such restrictive legends as the Company and the Company's counsel deem necessary under applicable law or pursuant to this Agreement.

10. Representations, Warranties, Covenants, and Acknowledgments. You hereby agree that in the event the Company and the Company's counsel deem it necessary or advisable in the exercise of their discretion, the transfer or issuance of the Shares issued pursuant to the Restricted Stock Units may be conditioned upon you making certain representations, warranties, and acknowledgments relating to compliance with applicable securities laws.

11. Voting and Other Rights. Subject to the terms of this Agreement, you shall not have any voting rights or any other rights and privileges of a stockholder of the Company unless and until the Restricted Stock Units are settled.

12. Authorization to Release Necessary Personal Information. You hereby authorize and direct your employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding your employment, the nature and amount of your compensation and the facts and conditions of your participation in the Plan (including, but not limited to, your name, home address, telephone number, date of birth, social security number (or

---

any other social or national identification number), salary, nationality, job title, number of shares held and the details of all Awards or any other entitlement to shares awarded, cancelled, exercised, vested, unvested or outstanding) for the purpose of implementing, administering and managing your participation in the Plan. You understand that the Data may be transferred to the Company or any of its Parent, Subsidiaries, or Affiliates, or to any third parties assisting in the implementation, administration and management of the Plan, including any requisite transfer to a broker or other third party assisting with the administration of this Restricted Stock Unit under the Plan or with whom shares acquired pursuant to this Restricted Stock Unit or cash from the sale of such shares may be deposited. You acknowledge that recipients of the Data may be located in different countries, and those countries may have data privacy laws and protections different from those in the country of your residence. Furthermore, you acknowledge and understand that the transfer of the Data to the Company or any of its Parent, Subsidiaries, or Affiliates, or to any third parties is necessary for your participation in the Plan. You may at any time withdraw the consents herein by contacting your local human resources representative in writing. You further acknowledge that withdrawal of consent may affect your ability to realize benefits from this Restricted Stock Unit, and your ability to participate in the Plan.

13. No Entitlement or Claims for Compensation.

(a) Your rights, if any, in respect of or in connection with this Restricted Stock Unit or any other Award is derived solely from the discretionary decision of the Company to permit you to participate in the Plan and to benefit from a discretionary Award. By accepting this Restricted Stock Unit, you expressly acknowledge that there is no obligation on the part of the Company to continue the Plan and/or grant any additional Awards to you. This Restricted Stock Unit is not intended to be compensation of a continuing or recurring nature, or part of your normal or expected compensation, and in no way represents any portion of a your salary, compensation, or other remuneration for purposes of pension benefits, severance, redundancy, resignation or any other purpose.

(b) Neither the Plan nor this Restricted Stock Unit or any other Award granted under the Plan shall be deemed to give you a right to become or remain an Employee, Consultant or director of the Company, a Parent, a Subsidiary, or an Affiliate. The Company and its Parents and Subsidiaries and Affiliates reserve the right to terminate your Service at any time, with or without cause, and for any reason, subject to applicable laws, the Company's Articles of Incorporation and Bylaws and a written employment agreement (if any), and you shall be deemed irrevocably to have waived any claim to damages or specific performance for breach of contract or dismissal, compensation for loss of office, tort or otherwise with respect to the Plan, this Restricted Stock Unit or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

14. Notices. Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient when delivered personally or sent by telegram or fax or forty-eight (48) hours after being deposited in the mail, as certified or registered mail, with postage prepaid, and addressed to the Company at its principal corporate offices and to you at the address maintained for you in the Company's records.

15. Entire Agreement; Enforcement of Rights. This Agreement, together with the Plan, sets forth the entire agreement and understanding of the parties relating to the subject matter

---

herein and therein and merges all prior discussions between the parties. Except as contemplated under the Plan, no modification of or amendment to this Agreement, nor any waiver of any rights under this Agreement, shall be effective unless in writing signed by the parties to this Agreement. The failure by either party to enforce any rights under this Agreement shall not be construed as a waiver of any rights of such party.

16. Governing Law. This Agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of Delaware, without giving effect to principles of conflicts of law.

17. Severability. If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of this Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of this Agreement shall be enforceable in accordance with its terms.

18. Successors and Assigns. The rights and benefits of this Agreement shall inure to the benefit of, and be enforceable by the Company's successors and assigns. The rights and obligations of you under this Agreement may not be assigned without the prior written consent of the Company.

19. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to this Restricted Stock Unit under the Plan and participation in the Plan or future Awards that may be granted under the Plan by electronic means or to request your consent to participate in the Plan by electronic means. You hereby consent to receive such documents by electronic delivery and, if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

20. Language. If you have received this Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different than the English version, the English version will control.

21. Acceptance of Agreement. You must expressly accept the terms and conditions of your Restricted Stock Unit as set forth in this Agreement by signing and returning this Agreement to the Company within 90 days after the Company sends this Agreement to you. If you do not accept your Restricted Stock Unit in the manner instructed by the Company, your Restricted Stock Unit will be subject to cancellation.

22. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original and all of which together shall constitute one instrument.

\* \* \* \*

*(Signature Page Follows)*

---

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on this \_\_\_\_ day of \_\_\_\_\_, 201\_.

**MARTHA STEWART LIVING OMNIMEDIA, INC.**

By: \_\_\_\_\_  
(Signature)

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**RECIPIENT:** \_\_\_\_\_

By: \_\_\_\_\_  
(Signature)

Address: \_\_\_\_\_

Telephone Number: \_\_\_\_\_

E-mail Address: \_\_\_\_\_

## List of Subsidiaries

| Name                               | State of Incorporation |
|------------------------------------|------------------------|
| MSO IP Holdings, Inc.              | California             |
| Martha Stewart, Inc.               | Connecticut            |
| Body & Soul Omnimedia, Inc.        | Delaware               |
| MSLO Productions, Inc.             | Delaware               |
| MSLO Productions — Home, Inc.      | Delaware               |
| MSLO Productions — EDF, Inc.       | Delaware               |
| Flour Productions, Inc.            | Delaware               |
| MSLO Shared IP Sub, LLC            | Delaware               |
| MSLO Emeril Acquisition Sub, LLC   | Delaware               |
| Emeril Primetime Music, Inc.       | Delaware               |
| Emeril Primetime Productions, Inc. | Delaware               |
| Good Thing Productions, Inc.       | Delaware               |

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-138515) of Martha Stewart Living Omnimedia, Inc.;
- (2) Registration Statement (Form S-8 Nos. 333-89263, 333-90118, 333-138518 and 333-151068) pertaining to the compensation plans of Martha Stewart Living Omnimedia, Inc.;

of our reports dated March 14, 2011, with respect to the consolidated financial statements and schedule of Martha Stewart Living Omnimedia, Inc. and the effectiveness of internal control over financial reporting of Martha Stewart Living Omnimedia, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2010.

New York, New York  
March 14, 2011

**Certification**

I, Charles Koppelman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Martha Stewart Living Omnimedia, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15(d) – 15(f)) for the registrant and have:
  - a.) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b.) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c.) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d.) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a.) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2011

/s/ Charles Koppelman  
Principal Executive Officer

---

**Certification**

I, Allison Jacques, certify that:

1. I have reviewed this Annual Report on Form 10-K of Martha Stewart Living Omnimedia, Inc;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15(d)-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15(d) – 15(f)) for the registrant and have:
  - a.) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b.) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c.) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d.) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a.) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 14, 2011

/s/ Allison Jacques

Principal Financial Officer

**CERTIFICATION**

**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Martha Stewart Living Omnimedia, Inc., a Delaware corporation (the "Company"), does hereby certify that:

The Annual Report on Form 10-K for the year ended December 31, 2010 (the "Form 10-K") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

*Dated: March 14, 2010*

*/s/ Charles Koppelman*

*Charles Koppelman*  
*Principal Executive Officer*

*Dated: March 14, 2010*

*/s/ Allison Jacques*

*Allison Jacques*  
*Principal Financial Officer*