

MARTHA STEWART LIVING OMNIMEDIA INC (MSO)

10-K

Annual report pursuant to section 13 and 15(d)

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**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, 2011**

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, 2011, was \$120,445,676.*

*Excludes 1,404,427 shares of our Class A Common Stock, and 25,984,625 shares of our Class B Common Stock, held by directors, officers and 10% stockholders, as of June 30, 2011. 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 2, 2012
40,842,451 shares of Class A Common Stock
25,984,625 shares of Class B Common Stock

Documents Incorporated by Reference.

Portions of Martha Stewart Living Omnimedia, Inc.'s Proxy Statement for
Its 2012 Annual Meeting of Stockholders are Incorporated
by Reference into Part III of This Report.

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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: Publishing and Broadcasting, our two media segments, and Merchandising. This combination enables us to cross-promote our content and products.

Our strategy to generate growth and profitability includes the following imperatives:

- Grow our merchandising business by leveraging our brand equity to expand the distribution of product in existing categories, diversify into new categories and distribution channels, and negotiate new partnerships that fully reward us for the value of our brands and our active role in product development and design;
- Strengthen our media business by creating a brand-centric advertising sales force and by using our content across existing and new distribution channels; and
- Expand our media presence and pursuing merchandising opportunities internationally.

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

- Cooking and Entertaining
- Holiday and Celebrations
- Crafts
- Home
- Whole Living (healthy living and sustainable practices)
- Weddings
- Organizing
- Gardening
- Pets (grooming, apparel, feeding and health)

As of March 1, 2012, we had approximately 582 employees. Our designed and branded products are available in thousands of retail outlets across the country including The Home Depot, Macy's, PetSmart and, effective in the first quarter of 2012, in many Staples stores.

Our revenues from foreign sources were \$9.8 million, \$6.5 million and \$10.8 million in 2011, 2010 and 2009, respectively, which was 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.

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BUSINESS SEGMENTS

Our three business segments are described below. Additional financial information relating to these segments may be found in Note 14, *Industry Segments*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K, which information is incorporated herein by reference.

PUBLISHING

In 2011, our Publishing segment accounted for 64% 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 65% of the segment's revenues in 2011, while circulation revenues represented approximately 33% 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. 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 is the leading publication for the Martha Stewart brand. *Martha Stewart Living* generates a majority of our magazine revenues, largely from advertising and circulation revenues.

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.

Everyday Food. We launched *Everyday Food* in September 2003 after publishing four test issues. This digest-sized magazine, now published ten times per year, targets women ages 25 to 49 and is intended to broaden our consumer audience. *Everyday Food* features quick, easy recipes for the everyday cook, along with seasonal menus, cooking instructions, suggestions for healthy, "smart" eating and money saving shopping tips.

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 integrate the magazine 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:

	2009	2010	2011	2012	
Title	Rate Base *	Rate Base *	Rate Base *	Rate Base *	Frequency
<i>Martha Stewart Living</i>	2,025,000	2,025,000	2,050,000	2,050,000	12
<i>Martha Stewart Weddings</i>	N/A***	N/A***	N/A***	N/A***	4**
<i>Everyday Food</i>	1,000,000	1,000,000	1,025,000	1,025,000	10
<i>Whole Living</i>	600,000	650,000	700,000	750,000	10

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

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- ** In addition, we anticipate producing two special issues of *Martha Stewart Weddings* in 2012, as compared to the one special issue of *Martha Stewart Weddings* we produced in each of 2011, 2010 and 2009.
- *** 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 2011, we published *Martha Stewart Living Halloween Flights of Fancy Special*, *Martha Stewart Holiday Handbook*, a full-sized *Everyday Food* special, and *Martha Stewart Weddings—Destination Weddings and Dream Honeymoons*.

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. In November 2011, we signed a new printing services agreement with R.R. Donnelly, extending the term through 2017 in exchange for rate concessions from the prior agreement. As paper prices decreased in 2009 and 2010 because of lower market demand, many paper mills consolidated operations in response to the declining paper demand. As a result of those actions, paper prices increased in 2011. Based on recent information from our paper supplier, we expect paper pricing to decline slightly in the first half of 2012 and increase in the second half of 2012. However, we expect our costs for magazine distribution to be lower in 2012 due to fewer pages in our magazines and lower print orders, as part of our circulation is increasingly distributed through digital editions, partially offset by one additional *Martha Stewart Weddings* special and increased postage unit 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, an affiliate of Time Inc., under an agreement that expires in June 2014. Subscription fulfillment services also for our magazines are provided by Time Customer Service, another affiliate of Time Inc., under an agreement that expires in June 2014.

Books

During 2007, we announced a multi-year agreement with Clarkson Potter/Publishers to publish ten Martha Stewart branded books. Subsequent amendments ultimately increased the number of books to be delivered to 17, all of which had been delivered and accepted as of December 31, 2011. Three books were published in 2011 under this agreement: *Pies & Tarts*, *Entertaining* and *Handmade Holiday Crafts*. In 2011, we negotiated a new multi-year, multi-book agreement with Clarkson Potter/Publishers to continue providing Martha Stewart branded books in the future.

In August 2008, we announced a multi-year agreement with Harper Studio to publish ten Emeril Lagasse branded books, of which four had been delivered and accepted through December 31, 2011. *Sizzling Skillets* was published under this agreement in 2011.

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 92 published books.

Digital Properties

marthastewart.com

The *marthastewart.com* website is the flagship 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 re-launch 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 2011, we

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invested in a re-platforming of our website that allows for additional functionality in 2012 and beyond. The enhancements to the website are expected to improve user engagement and expand our advertising inventory which, in combination, is expected to drive growth in our audience and revenues. In 2011, *marthastewart.com* averaged 3.6 million monthly unique visitors, a 25% increase over 2010, and 67 million monthly pageviews, a 5% increase over 2010.

marthastewartweddings.com

In 2008, we launched *marthastewartweddings.com* to guide brides-to-be through the process of planning and designing of their weddings, with a strong emphasis on identifying and developing each bride's personalized wedding style. The site continues to grow in traffic and audience attention, averaging around 0.5 million monthly unique viewers in 2011, a 33% increase over 2010, and around 15 million monthly average pageviews, a 30% increase over 2010.

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, unique visitors to *wholeliving.com* doubled due to improvements in branding, product and programming, as well as due to an increase in popularity of this lifestyle category overall. While unique viewers decreased 4% in 2011 compared to 2010, monthly average page views increased 17% to around 4 million and total visits increased to over 1 million average monthly visits, a 53% increase over 2010.

Digital Products

In 2011, we developed five digital apps that were available for download through Apple iTunes. We launched iPad apps of Martha Stewart Living and Everyday Food, which are enhanced digital versions of those titles for the iPad, and which are also available on other tablets. The three other iPad apps that launched were Egg Dyeing 101, Cocktails and Smoothies, along with add-ons and updates of our existing apps.

Digital Editions are available for all of our publications. In addition to the iPad versions of Martha Stewart Living and Everyday Food, we also have digital versions of these titles, along with Martha Stewart Weddings and Whole Living, available through the Color Nook, Kindle Fire and through the Zinio platform. Digital editions account for approximately 3% percent of all our circulation.

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 digital 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.

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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. Additionally, the publication schedule for our special interest publications can vary and lead to quarterly fluctuations in the Publishing segment's results. Advertising revenue in our magazines and on *marthastewart.com* is typically highest in the fourth quarter of the year due to higher consumer demand for our holiday content, and corresponding higher advertiser demand to reach our audience with their marketing messages.

BROADCASTING

Our Broadcasting business segment accounted for 14% of our total revenues in 2011. 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. *The Martha Stewart Show* 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, which ended in September 2010.

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*. Season 6 of *The Martha Stewart Show* began airing on Hallmark Channel in September 2010. *The Martha Stewart Show*, in its current format with a live audience, is expected to conclude on Hallmark Channel with the completion of season 7 in September 2012. As part of our overall Hallmark Channel agreement, we also agreed to develop a range of new and original series and prime time specials, which included *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 right in the future to further monetize these assets. Revenues for *The Martha Stewart Show* on Hallmark Channel are mostly comprised of advertising, product integration and international licensing revenues. Revenues for the companion programs on Hallmark Channel generally consist of licensing revenue.

Emeril Lagasse also provides various television services for us. In 2011, Emeril Lagasse hosted *The Originals* on the Cooking Channel, as well as *Emeril's Table*, which aired on Hallmark Channel.

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 was original programming created by our experts. In November 2011, we renewed our agreement with Sirius XM Radio for a one-year term ending December 31, 2012 at a reduced license fee, along with a reduction of original programming to approximately 40 hours each week.

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

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demographic composition, viewer response to advertisers' products and services and the effectiveness of the advertising sales staffs. 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 2011 results include a large portion of season 6 of *The Martha Stewart Show* and the first 14 weeks of season 7 of *The Martha Stewart Show* on Hallmark Channel. While repeat episodes air over the summer, original episodes usually run September to May and typically generate higher ratings and revenues.

MERCHANDISING

Our Merchandising segment contributed 22% of our total revenues in 2011. 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 sometimes together with other lines they make or sell. Our licensing agreements do not require us to maintain any inventory nor incur any significant 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 1,978 stores in the United States and all of the 180 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, paint, storage and organization products, outdoor furniture, window treatments, kitchen and bathroom cabinetry, countertops, carpet and seasonal holiday decor. On February 29, 2012, we announced the extension of our agreement with The Home Depot through March 2016 and plan to offer an expanded array of *Martha Stewart Living* branded products.

Martha Stewart Collection at Macy's

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

J.C. Penney

In December 2011, we announced a strategic alliance with J.C. Penney Corporation, Inc. ("J. C. Penney") and our plans to launch distinct Martha Stewart retail stores inside at least 600 of J.C. Penney's department stores

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and to jointly develop an e-commerce site pursuant to a 10-year license agreement. For information regarding J.C. Penney's investment in our company, see Note 8, *Shareholders' Equity*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K. These Martha Stewart stores are intended to be destinations where consumers can experience an engaging and inspiring environment and buy a variety of affordable, high-quality home and lifestyle merchandise. We expect to launch both the Martha Stewart stores and the Martha Stewart-branded e-commerce site in early 2013.

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), at Michaels 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 2011, we further expanded our *Martha Stewart Crafts* portfolio by introducing a line of craft paints with Plaid Enterprises and a line of yarns and looms with Orchard Yarn and Thread, Inc. (d/b/a Lion Brand Yarn).

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 a wide range of pet accessories, including apparel, collars, leashes, bedding, grooming supplies and toys.

KB Home / Martha Stewart Homes

We have had a partnership with KB Home for the development of *Martha Stewart Homes* since 2005. 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.

Martha Stewart Home Office with Avery

In December 2011, shipment of products for *Martha Stewart Home Office* with Avery began, in preparation for the launch of the line in February 2012. The *Martha Stewart Home Office* line is sold currently at Staples and on Staples.com. The line encompasses a range of home office products, including surface organization, journals, portable filing and pantry organization.

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.

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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.

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 in certain national hotel chains.

Other Emeril Manufacturing Partnerships

In 2010, we introduced a variety of new partnerships, including *Emerilware Cutlery with SED International Inc. (formerly Lehrhoff ABL Inc.)*, which is a branded cutlery collection that includes knives and cutting boards. The line was launched on the Home Shopping Network in November. 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.

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. 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.

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 at Macy's), *Martha Stewart Crafts*, *Martha Stewart Weddings*, *Everyday Food*, *Whole Living*, *Mad Hungry* and *Emeril*. 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, www.marthastewartweddings.com, www.wholeliving.com, www.emerils.com and www.everydayfood.com.

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We regularly file copyrights regarding our proprietary designs and editorial content. 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.

We regard our rights in and to our trademarks, our proprietary designs and editorial content as valuable assets in the marketing of our products. Accordingly, 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 perpetual rights to the "Martha Stewart" portion of our 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 flagship website can be found on the Internet at 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 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, material 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, including her services as an officer and director of MSLO, 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, could have a material adverse effect on our business. Ms. Stewart's current employment agreement ends March 31, 2012. We expect to enter into an extension of Ms. Stewart's employment agreement prior to its expiration.

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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.

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 members of creative, technology, and sales and marketing staffs. The loss of some of our key executives or key members of our operating staff, or an inability to attract or retain other key individuals, could materially adversely affect us.

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 or hamper our ability to raise additional funds.

The economy experienced extreme disruption during each of the three years in the period ended December 31, 2011, including extreme volatility in securities prices, severely diminished liquidity and a drastic reduction in credit availability. These events led to increased unemployment, a downturn in the housing market, declines in consumer confidence and declines in personal income and consumer spending, particularly discretionary spending. These 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 in our Merchandising business.

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 depend on advertising revenue in our Publishing and Broadcasting businesses. We cannot control how much or where companies choose to advertise. Since 2009, we have seen a significant downturn in advertising dollars generally in the marketplace, and more competition for the reduced dollars. During the course of the advertising recession, we experienced a decline in advertising revenues, and a permanent reversal of that trend is not assured. If advertisers continue to spend less money, or if they advertise elsewhere in lieu of our magazines, websites or television programming, our business and revenues will be materially adversely affected. Furthermore, if our licensees experience financial hardship, they may be unwilling or unable to pay us royalties or continue selling our products, regardless of their contractual obligations. 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. 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 and/or if the companies with which we do business experience ongoing problems, our revenues may not grow as planned. 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 necessarily 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 evaluate the recoverability of the carrying amount of our goodwill, intangible and other assets on an ongoing

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basis, and we may in the future incur 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 our assumptions to be wrong with respect to prices, costs, holding periods or other factors. Differing results may amplify impairment charges in the future.

Acquiring or developing additional brands or businesses poses inherent financial and other risks and challenges and may result in losses.

If we were to acquire or create a new brand, or expand an existing brand, we may be required to increase expenditures to accelerate the development process with the goal of achieving longer-term cost savings and improved profitability. Brand developments may increase expenses if we hire additional personnel to manage our growth. These investments also would 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, an acquisition may not advance our business strategy and may result in losses.

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. 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.

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 that could hinder our ability to grow or expand our product 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.

For example, a dispute with a current licensee is a lawsuit filed on January 23, 2012, against us in the Supreme Court of the State of New York, County of New York titled *Macy's, Inc. and Macy's Merchandising Group, Inc. v. Martha Stewart Living Omnimedia, Inc.* In this lawsuit, Macy's Inc. and Macy's Merchandising Group, Inc. (together, the "Macy's plaintiffs") claim that our planned activities under the agreement governing our strategic alliance with J.C. Penney Corporation, Inc. materially breach the agreement between us and Macy's Merchandising Group, Inc. dated April 3, 2006 (the "Macy's Agreement"). The Macy's plaintiffs seek a declaratory judgment, preliminary and permanent injunctive relief, and incidental and other damages. The Macy's plaintiffs initially filed a motion for a preliminary injunction and subsequently withdrew the motion without prejudice. On February 10, 2012, the Company filed an answer to the Macy's plaintiffs' original

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complaint and asserted three counterclaims against the Macy's plaintiffs, alleging that Macy's, Inc. and Macy's Merchandising Group, Inc. had breached the Macy's Agreement by, among other things, failing to maximize net sales. The Macy's plaintiffs have denied the allegations of the counterclaims. If the Macy's plaintiffs are successful and we are enjoined, some of the future benefits we anticipate receiving from our relationship with J. C. Penney could be reduced.

If adverse trends develop in the television production business generally, or if we were unable to sustain a television presence, our business could be adversely affected.

Television revenues may 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.

The Martha Stewart Show has experienced a decline in ratings in 2011 compared to 2010 that reflect the general decline in daytime cable television viewers. If ratings for the show were to further decline, it would adversely affect our Broadcasting advertising revenues.

In addition, if we are unsuccessful in creating replacement programming for *The Martha Stewart Show*, which is expected to only air through September 2012, or if visibility of Ms. Stewart on different television programming formats is diminished, Broadcasting segment revenues will be severely reduced. Publishing segment advertising revenues could be negatively impacted, as well as opportunities for multi-platform advertising sales.

We have also produced 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.

We have placed emphasis on building an advertising-revenue-based website, dependent on a large consumer audience and resulting page views. Failure to maintain growth 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 re-launch 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 2010/2011 initiative to re-platform *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;
- develop and upgrade our technologies so that they can 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.

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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.

Absence of 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 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, subscription agents 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. As a result of many paper mills consolidating their operations, we experienced paper price increases in 2011.

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.

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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.

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 would 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 would in turn negatively impact our revenue.

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 proprietary information.

Our website activities involve the storage and transmission of proprietary information, 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 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. 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 most of 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 89% 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 all directors other than the two directors whose election is controlled by J.C. Penney and generally any merger, consolidation or sale of all or substantially all of our assets, and indirectly the ability to control our management and affairs. Ms. Stewart's 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

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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.

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, customer service, 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 digital 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. 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.

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Item 2. Properties.

Information concerning the location, use and approximate square footage of our principal facilities as of December 31, 2011, all of which are leased, is set forth below:

<u>Location</u>	<u>Use</u>	<u>Approximate Area in Square Feet</u>
601 West 26th Street New York, NY	Product design facilities, photography studio, test kitchens and property storage	218,249
226 West 26th Street New York, NY	Principal executive and administrative offices; Publishing segment offices; Corporate offices; and advertising sales offices	24,586
221 West 26th Street New York, NY	Executive and administrative office for television production	23,723
Satellite Sales Offices in Michigan, Illinois and California	Television production facilities Advertising sales offices	7,271

We expect to vacate our television production facilities at 221 West 26th Street and our executive and administrative office for television production at 226 West 26th Street at the end of the second quarter of 2012. The other leases for our offices and facilities expire between 2012 and 2018, and some of these leases are subject to our renewal.

We also have an intangible asset agreement covering our use of 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 11, *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

On January 23, 2012, Macy's Inc. and Macy's Merchandising Group, Inc. filed a lawsuit against us in the Supreme Court of the State of New York, County of New York titled Macy's, Inc. and Macy's Merchandising Group, Inc. v. Martha Stewart Living Omnimedia, Inc. In such lawsuit, the Macy's plaintiffs claim that our planned activities under our commercial agreement with J.C. Penney Corporation, Inc. ("JCP") materially breach the agreement between us and Macy's Merchandising Group, Inc. dated April 3, 2006. The Macy's plaintiffs seek a declaratory judgment, preliminary and permanent injunctive relief, and incidental and other damages. The Macy's plaintiffs initially filed a motion for a preliminary injunction and subsequently withdrew the motion without prejudice. On February 10, 2012, we filed an answer to the Macy's plaintiffs' original complaint and asserted three counterclaims against the Macy's plaintiffs, alleging that Macy's Inc. and Macy's Merchandising Group, Inc. had breached the Macy's Agreement by, among other things, failing to maximize net sales. The Macy's plaintiffs have denied the allegations of the counterclaims. We believe that we have meritorious defenses to the claims made by the Macy's plaintiffs, and we intend to vigorously defend such claims. Litigation costs in this matter may be significant.

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

Item 4. Mine Safety Disclosures.

Not applicable.

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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	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	2010	2010	2010	2010	2011	2011	2011	2011
High Sales Price	\$ 6.15	\$ 7.45	\$ 5.75	\$ 4.96	\$ 4.54	\$ 5.49	\$ 4.75	\$ 5.19
Low Sales Price	\$ 4.36	\$ 4.89	\$ 4.28	\$ 4.25	\$ 3.40	\$ 3.45	\$ 2.97	\$ 2.77

As of March 1, 2012, there were 7,572 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. However, in December 2011, our Board of Directors declared and paid a special one-time dividend of \$0.25 per share of common stock for a total dividend payment of \$16.7 million.

Recent Sales of Unregistered Securities and Use of Proceeds

As previously reported, on December 6, 2011, JCP purchased 11 million newly issued shares of our \$0.01 par value Class A Common Stock and one share of our Series A Preferred Stock in exchange for cash of \$38.5 million.

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, 2011:

Period	Total Number of Shares (or Units) Purchased (1)	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or
				Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased under the Plans or Programs
October 2011	1,539	\$ 3.12	Not applicable	Not applicable
November 2011	—	—	Not applicable	Not applicable
December 2011	—	—	Not applicable	Not applicable
Total	1,539	\$ 3.12		

(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.

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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, 2007 and ending on December 31, 2011. 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.

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Item 6. Selected Financial Data.

The information set forth below for the five years ended December 31, 2011 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, including per share amounts).

	2011	2010	2009	2008	2007
INCOME STATEMENT DATA REVENUES					
Publishing	\$ 140,857	\$ 145,573	\$ 146,100	\$ 179,116	\$ 202,916
Broadcasting	31,962	42,434	46,111	47,328	40,263
Merchandising	48,614	42,806	52,566	57,866	84,711
Total revenues	<u>221,433</u>	<u>230,813</u>	<u>244,777</u>	<u>284,310</u>	<u>327,890</u>
Operating (loss) income	<u>(18,594)</u>	<u>(8,663)</u>	<u>(11,968)</u>	<u>(10,857)</u>	<u>7,714</u>
Net (loss) income	<u>\$ (15,519)</u>	<u>\$ (9,596)</u>	<u>\$ (14,578)</u>	<u>\$ (15,665)</u>	<u>\$ 10,289</u>
PER SHARE DATA					
<i>Earnings/(loss) per share:</i>					
Basic and diluted—Net (loss) income	<u>\$ (0.28)</u>	<u>\$ (0.18)</u>	<u>\$ (0.27)</u>	<u>\$ (0.29)</u>	<u>\$ 0.20</u>
<i>Weighted average common shares outstanding:</i>					
Basic	55,881	54,440	53,880	53,360	52,449
Diluted	55,881	54,440	53,880	53,360	52,696
Dividends per common share	\$ 0.25	\$ —	\$ —	\$ —	\$ —
FINANCIAL POSITION					
Cash and cash equivalents	\$ 38,453	\$ 23,204	\$ 25,384	\$ 50,204	\$ 30,536
Short-term investments	11,051	10,091	13,085	9,915	26,745
Total assets	216,120	222,314	229,791	261,285	255,267
Long-term obligations	—	7,500	13,500	19,500	—
Shareholders' equity	147,947	139,033	143,820	150,995	155,529
OTHER FINANCIAL DATA					
Cash flow (used in) provided by operating activities	\$ (2,220)	\$ 1,872	\$ (9,273)	\$ 39,699	\$ 8,306
Cash flow (used in) provided by investing activities	6,886	153	(9,617)	(38,856)	(6,606)
Cash flow (used in) provided by financing activities	10,583	(4,205)	(5,930)	18,825	308

NOTES TO SELECTED FINANCIAL DATA

(Loss) / income from continuing operations

2011 results include restructuring charges of approximately \$5.1 million.

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 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 Corporation ("Kmart") royalties of \$10.0 million as non-cash revenue, an incremental \$3.9 million from the conclusion of our

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relationship with TurboChef Technologies, Inc. ("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*.

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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 high-quality, licensed products that we design. We are organized into three business segments: Publishing and Broadcasting representing our media platforms; and Merchandising. Summarized below are our operating results for 2011, 2010 and 2009.

	2011	2010	2009
Total Revenues	\$ 221,433	\$ 230,813	\$ 244,777
Total Operating Costs and Expenses	(240,027)	(239,476)	(256,745)
Total Operating Loss	\$ (18,594)	\$ (8,663)	\$ (11,968)

We generate revenue from various sources such as advertising customers and licensing partners. Publishing is our largest business segment, accounting for 64% of our total revenues in 2011. 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 subscriptions, 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 television advertising and license fees from our agreement with Hallmark Channel, as well as satellite radio advertising and license fees. Television programming is comprised of *The Martha Stewart Show*, a daily home and lifestyle show, *Martha Bakes* and other holiday and interview specials featuring Martha Stewart. In addition, we produce television programming featuring other talent, including programs featuring Chef Emeril Lagasse, *Mad Hungry with Lucinda Scala Quinn* and *Petkeeping with Marc Morrone*. The satellite radio programming that we produce airs as 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. Our retail partnerships include our *Martha Stewart Living* program at The Home Depot and our *Martha Stewart Collection* at Macy's. We have manufacturing partnerships with Wilton Properties Inc. for our *Martha Stewart Crafts* program and with Age Group for our *Martha Stewart Pets* line, as well as with a variety of manufacturing partnerships to produce products under the Emeril Lagasse brand. In 2012, we expect to earn revenues from Avery for our Martha Stewart Home Office line and from our J.C. Penney alliance for our initial design efforts.

We incur expenses primarily consisting of 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 editorial costs associated with creating content across our media platforms, 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. In 2011, we incurred restructuring charges associated with the installation of a new executive management team and the implementation of their strategic vision. The restructuring charges primarily consisted of employee severance and other employee-related termination costs, as well as certain consulting and recruiting costs.

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Detailed segment operating results for 2011, 2010 and 2009 are summarized below.

	2011	2010	2009
Segment Revenues:			
Publishing Segment	\$ 140,857	\$ 145,573	\$ 146,100
Broadcasting Segment	31,962	42,434	46,111
Merchandising Segment	48,614	42,806	52,566
TOTAL REVENUES	221,433	230,813	244,777
Segment Operating Costs and Expenses:			
Publishing Segment	(147,321)	(142,923)	(146,269)
Broadcasting Segment	(36,702)	(44,012)	(39,971)
Merchandising Segment	(18,642)	(17,805)	(26,915)
TOTAL OPERATING COSTS AND EXPENSES BEFORE CORPORATE EXPENSES	(202,665)	(204,740)	(213,155)
Operating Income / (Loss):			
Publishing Segment	(6,464)	2,650	(169)
Broadcasting Segment	(4,740)	(1,578)	6,140
Merchandising Segment	29,972	25,001	25,651
Total Segment Operating Income Before Corporate Expenses	18,768	26,073	31,622
Corporate Expenses *	(37,362)	(34,736)	(43,590)
TOTAL OPERATING LOSS	\$ (18,594)	\$ (8,663)	\$ (11,968)

* Corporate expenses include unallocated costs of 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.

2011 Operating Results Compared to 2010 Operating Results

In 2011, total revenues decreased 4% from 2010 largely due to lower television and print advertising revenue. The 2010 revenues also included royalties related to our Kmart and 1-800-Flowers.com agreements, which ended in January 2010 and June 2010, respectively, and the \$2.2 million termination payment that we received from 1-800-Flowers.com, as well as substantially all of the exclusive license fee of approximately \$5.0 million from Hallmark Channel for a significant portion of our library of programming. The 2010 revenues further included a \$1.0 million one-time payment received from a manufacturing partner. The reduced television and print advertising revenues and the absence of these 2010 items were partially offset by higher 2011 television revenue from license fees related to our new programming on Hallmark Channel, an increase in Merchandising segment revenues from increased sales by certain of our existing partners and higher digital advertising revenue.

In 2011, our operating costs and expenses before Corporate expenses decreased 1% from 2010 predominantly due to lower television production and distribution costs related to seasons 6 and 7 of *The Martha Stewart Show* in our Broadcasting segment, as well as lower advertising staff costs from the reorganization of our advertising sales department in the fourth quarter of 2010 in both the Publishing and Broadcasting segments. These decreases in costs were partially offset by higher paper, printing and distribution expenses, higher content creation costs and higher subscriber acquisition costs in our Publishing segment in 2011, as well as higher expenses associated with our expanded merchandising relationships. Segment operating costs and expenses before Corporate expenses included restructuring charges, which mainly consisted of employee severance and certain consulting costs.

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Corporate expenses increased 8% in 2011 as compared to 2010 primarily due to restructuring charges. These Corporate restructuring charges, which consisted of employee severance and other employee-related termination costs, as well as certain consulting and recruiting costs, were partially offset by the reallocation of facilities-related expenses primarily to the Publishing segment, as described further in the segment discussion below.

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. Revenues also declined in 2010 due to lower magazine subscription revenue, lower licensing fees related to our radio agreement with Sirius XM Radio, and lower print and television advertising revenues. Partially offsetting these decreases was an increase in revenues from Merchandising segment partners other than Kmart in 2010 from 2009, including a one-time \$1.0 million payment received from a manufacturing partner, as well as higher 2010 television revenue from license fees from the delivery of new programming, an exclusive license fee of approximately \$5.0 million from Hallmark Channel for a significant portion of our library of television programming and higher digital advertising revenue.

In 2010, our operating costs and expenses before Corporate expenses decreased approximately 4% from 2009. 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.

Liquidity

During 2011, our overall cash, cash equivalents and short-term investments increased \$16.2 million from December 31, 2010 largely from the proceeds received from issuing 11.0 million shares of our Class A Common Stock and one share of Series A Preferred Stock to JCP in exchange for \$38.5 million and the proceeds from selling our cost-based investment in WeddingWire for \$11.0 million. These proceeds were partially offset by the payment of a special one-time dividend of \$16.7 million, the complete repayment of our outstanding term loan balance of \$9.0 million with Bank of America, N.A. ("Bank of America") and cash used for capital expenditures and operations during 2011. Cash, cash equivalents and short-term investments were \$49.5 million and \$33.3 million at December 30, 2011 and December 31, 2010, respectively.

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RESULTS OF OPERATIONS

Comparison of 2011 to 2010.

PUBLISHING SEGMENT

(in thousands)	2011	2010	Better / (Worse)
Publishing Segment Revenues			
Print Advertising	\$ 67,740	\$ 73,797	\$ (6,057)
Digital Advertising	23,366	21,420	1,946
Circulation	46,109	46,442	(333)
Books	1,814	2,756	(942)
Other	1,828	1,158	670
Total Publishing Segment Revenues	\$ 140,857	\$ 145,573	\$ (4,716)
Publishing Segment Operating Costs and Expenses			
Production, distribution and editorial	(86,197)	(82,433)	(3,764)
Selling and promotion	(51,036)	(52,872)	1,836
General and administrative	(8,486)	(6,491)	(1,995)
Depreciation and amortization	(774)	(1,127)	353
Restructuring charges	(828)	—	(828)
Total Publishing Segment Operating Costs and Expenses	\$ (147,321)	\$ (142,923)	\$ (4,398)
Publishing Segment Operating (Loss) / Income	\$ (6,464)	\$ 2,650	\$ (9,114)

Publishing segment revenues decreased 3% in 2011 from the prior year. Print advertising revenue decreased \$6.1 million in 2011 from 2010 due to the decrease in advertising pages in *Martha Stewart Living*, *Everyday Food* and *Whole Living*, partially offset by higher rates across these three publications. *Martha Stewart Weddings* advertising revenue increased due to an increase in advertising pages, partially offset by lower rates. Digital advertising revenue increased \$1.9 million in 2011 from 2010 due to an increase in sold advertising volume, partially offset by lower rates. Circulation revenue was essentially flat in 2011 as compared to 2010 due to lower newsstand sales of *Martha Stewart Living*, *Everyday Food* and *Whole Living*, partially offset by the sales of the special issue of *Everyday Food* with no comparable special interest publication in the prior year, as well as higher newsstand sales of *Martha Stewart Weddings*. Also offsetting the decline in combined newsstand sales was the increase in volume of subscription copies of *Martha Stewart Living* at higher revenues per copy from 2010. Revenue related to our books business decreased \$0.9 million primarily due to the delivery and acceptance in 2011 of lower-value manuscripts related to our multi-book agreements with Clarkson Potter/Publishers for Martha Stewart books. Other revenue increased \$0.7 million primarily due to increased digital distribution and sales of our content on portable devices, including iPad versions of our titles and iPad/iPhone apps.

Magazine Publication Schedule

Year ended December 31,	2011	2010
<i>Martha Stewart Living</i>	12 Issues	12 Issues
<i>Martha Stewart Weddings</i> (a)	4 Issues	4 Issues
<i>Everyday Food</i>	10 Issues	10 Issues
<i>Whole Living</i>	10 Issues	10 Issues
<i>Special Interest Publications</i>	4 Issues	3 Issues

(a) In both 2011 and 2010 we published one special issue of *Martha Stewart Weddings*.

Production, distribution and editorial expenses increased \$3.8 million in 2011 from 2010 due to higher paper, printing and distribution prices and the costs associated with the additional special issue of *Everyday Food*. Production, distribution and editorial expenses also increased due to higher art and editorial compensation

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and story costs to support the digital and print magazines, books, websites and other digital initiatives, partially offset by savings from a lower volume of magazine pages produced. Selling and promotion expenses decreased \$1.8 million due to lower staff costs primarily from the fourth quarter 2010 reorganization of our advertising sales department, lower advertising sales commission costs and lower print advertising marketing expenses. These decreases were partially offset by higher subscriber acquisition costs, higher newsstand marketing costs and higher digital marketing and advertising operations costs supporting the increase in digital advertising revenues. General and administrative expenses increased \$2.0 million largely due to a higher allocation of facilities-related expenses to our Publishing segment to reflect the 2011 utilization of office space, as well as higher compensation expense. The increase in our Publishing segment rent allocation was offset by a decrease in the Corporate rent allocation. Depreciation and amortization expenses decreased by \$0.4 million during 2011 compared to 2010 reflecting the full depreciation during the second quarter of 2010 of the costs associated with our 2007 launch of our redesigned website. Restructuring charges included employee severance and certain consulting costs.

BROADCASTING SEGMENT

(in thousands)	2011	2010	Better / (Worse)
Broadcasting Segment Revenues			
Advertising	\$ 15,201	\$ 23,499	\$ (8,298)
Radio	3,343	3,500	(157)
Licensing and other	13,418	15,435	(2,017)
Total Broadcasting Segment Revenues	\$ 31,962	\$ 42,434	\$ (10,472)
Broadcasting Segment Operating Costs and Expenses			
Production, distribution and editorial	(32,219)	(37,870)	5,651
Selling and promotion	(1,446)	(3,254)	1,808
General and administrative	(1,967)	(2,010)	43
Depreciation and amortization	(470)	(878)	408
Restructuring charges	(600)	—	(600)
Total Broadcasting Segment Operating Costs and Expenses	\$ (36,702)	\$ (44,012)	\$ 7,310
Broadcasting Segment Operating Loss	\$ (4,740)	\$ (1,578)	\$ (3,162)

Broadcasting segment revenues decreased 25% in 2011 from 2010. Advertising revenue decreased \$8.3 million primarily due to the decline in ratings, as well as lower rates, for season 6 of *The Martha Stewart Show* on Hallmark Channel as compared to season 5 of *The Martha Stewart Show* in syndication. Advertising revenue also declined due to fewer sales of television integrations, lower integration rates and decreased radio advertising in 2011 from 2010. Television licensing and other revenue decreased \$2.0 million primarily due to the inclusion in the first quarter of 2010 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 lower talent fees for certain television programming featuring Emeril Lagasse and lower international sales of *The Martha Stewart Show*. The decrease in these television licensing revenues was partially offset by the delivery of new television programming in 2011 to Hallmark Channel as part of the companion programming to *The Martha Stewart Show*, which included *Emeril's Table*, *Mad Hungry with Lucinda Scala Quinn*, *Martha Bakes*, holiday and other specials and *Petkeeping with Marc Morrone*.

Production, distribution and editorial expenses decreased \$5.7 million due to lower television production costs related to season 6 of *The Martha Stewart Show* on Hallmark Channel and the absence of distribution fees, which were payable under the season 5 syndication agreement for *The Martha Stewart Show*. The cost savings from *The Martha Stewart Show* season 6 were partially offset by higher television production costs associated with the delivery of new programming to Hallmark Channel and a non-cash impairment charge of approximately \$1.3 million for a definite-lived intangible asset previously acquired by the Broadcasting segment related to a

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television content library. Selling and promotion expenses decreased \$1.8 million primarily due to lower staff costs from the fourth quarter 2010 reorganization of our advertising sales department. Restructuring charges included employee severance as well as certain other non-recurring costs.

MERCHANDISING SEGMENT

(in thousands)	2011	2010	Better / (Worse)
Merchandising Segment Revenues			
Royalty and other	\$ 48,614	\$ 42,806	\$ 5,808
Total Merchandising Segment Revenues	\$ 48,614	\$ 42,806	\$ 5,808
Merchandising Segment Operating Costs and Expenses			
Production, distribution and editorial	(8,668)	(7,891)	(777)
Selling and promotion	(4,726)	(4,162)	(564)
General and administrative	(5,203)	(5,709)	506
Depreciation and amortization	(32)	(43)	11
Restructuring charges	(13)	—	(13)
Total Merchandising Segment Operating Costs and Expenses	\$ (18,642)	\$ (17,805)	\$ (837)
Merchandising Segment Operating Income	\$ 29,972	\$ 25,001	\$ 4,971

Merchandising segment revenues increased 14% in 2011 from 2010. Royalty and other revenues increased \$5.8 million primarily due to increased sales by certain of our existing partners, partially offset by the inclusion in the prior-year period of royalties and a one-time \$2.2 million termination payment from 1-800-Flowers.com, an agreement that ended in June 2010. In addition, the prior year included royalties from the terminated Kmart license and other expired partnerships, as well as a one-time \$1.0 million payment received from a manufacturing partner.

Production, distribution and editorial expenses increased \$0.8 million primarily due to higher compensation expenses associated with an increase in headcount to support our new merchandising relationships. Selling and promotion expenses increased \$0.6 million mostly as a result of services that we provided to our partners for reimbursable creative services projects. General and administrative expenses decreased \$0.5 million largely due to the benefit in non-cash equity compensation expense from a large forfeiture of equity awards in connection with certain executive departures in the Merchandising segment.

CORPORATE

(in thousands)	2011	2010	Better / (Worse)
Corporate Operating Costs and Expenses			
General and administrative	\$ (30,985)	\$ (32,152)	\$ 1,167
Depreciation and amortization	(2,702)	(2,584)	(118)
Restructuring charges	(3,675)	—	(3,675)
Total Corporate Operating Costs and Expenses	\$ (37,362)	\$ (34,736)	\$ (2,626)

Corporate operating costs and expenses increased 8% in 2011 from 2010. General and administrative expenses decreased \$1.2 million due to the reallocation of facilities-related expenses to our Publishing segment to reflect 2011 utilization of office space, as well as the inclusion in 2010 of severance charges related to the reorganization of our advertising sales department, lower rent expense from the consolidation of certain offices and decreased general overhead spending. These decreases were partially offset by an increase in compensation expense as a result of overlaps in our executive management team during transition periods and higher professional fees. Restructuring charges included employee severance and other employee-related termination

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costs, as well as certain consulting and recruiting costs. Also included in the \$3.7 million restructuring charge is an approximate \$0.4 million reversal of non-cash equity compensation expense related to certain employee departures.

OTHER ITEMS

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 2011.

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 in 2010 with no comparable gain in 2011.

GAIN / (LOSS) ON EQUITY SECURITIES. Gain on equity securities was \$0.02 million for 2011 compared to a loss of \$(0.02) million in 2010. Income/ (loss) on equity securities in 2010 was the result of marking a warrant then held by us to fair value in accordance with accounting principles governing these financial instruments. That warrant was cancelled during the three months ended September 30, 2011 resulting in a loss that was partially offset by the gains previously recorded in 2011.

NET GAIN ON SALE OF COST-BASED INVESTMENT. Net gain on the sale of a cost-based investment was \$7.6 million for 2011 with no comparable gain in 2010. The gain was related to selling our cost-based investment in WeddingWire in December 2011 for cash of \$11.0 million.

OTHER-THAN-TEMPORARY LOSS ON COST-BASED INVESTMENTS. Other-than-temporary loss on cost-based investments was \$2.7 million for 2011 with no comparable loss in 2010. The loss was related to the write down of the carrying value of the Company's cost-based investments in pingg and Ziplist after concluding that these investments were substantially impaired.

NET LOSS. Net loss was \$(15.5) million for 2011, compared to a net loss of \$(9.6) million for 2010, as a result of the factors described above.

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RESULTS OF OPERATIONS

Comparison of 2010 to 2009.

PUBLISHING SEGMENT

(in thousands)	2010	2009	Better / (Worse)
Publishing Segment Revenues			
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
Total Publishing Segment Revenues	\$ 145,573	\$ 146,100	\$ (527)
Publishing Segment Operating Costs and Expenses			
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
Total Publishing Segment Operating Costs and Expenses	\$ (142,923)	\$ (146,269)	\$ 3,346
Publishing Segment Operating Income / (Loss)	\$ 2,650	\$ (169)	\$ 2,819

Publishing segment revenues were essentially flat in 2010 from 2009. 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)	4 Issues	4 Issues
<i>Everyday Food</i>	10 Issues	10 Issues
<i>Whole Living</i>	10 Issues	10 Issues
<i>Special Interest Publications</i>	3 Issues	6 Issues
<i>Dr. Andrew Weil's Self Healing newsletter</i>	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 in 2010 from 2009 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. 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

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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 / (Worse)
Broadcasting Segment Revenues			
Advertising	\$ 23,499	\$ 24,454	\$ (955)
Radio	3,500	7,000	(3,500)
Licensing and other	15,435	14,657	778
Total Broadcasting Segment Revenues	\$ 42,434	\$ 46,111	\$ (3,677)
Broadcasting Segment Operating Costs and Expenses			
Production, distribution and editorial	(37,870)	(33,262)	(4,608)
Selling and promotion	(3,254)	(3,028)	(226)
General and administrative	(2,010)	(2,292)	282
Depreciation and amortization	(878)	(1,389)	511
Total Broadcasting Segment Operating Costs and Expenses	\$ (44,012)	\$ (39,971)	\$ (4,041)
Broadcasting Segment Operating (Loss) / Income	\$ (1,578)	\$ 6,140	\$ (7,718)

Broadcasting segment revenues decreased 8% in 2010 from 2009. 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 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 includes *Mad Hungry with Lucinda Scala Quinn*, *Whatever Martha!*, holiday and other specials and *Petkeeping with Marc Morrone*. 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 \$4.6 million due primarily to television production costs related to the new programming on 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.

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MERCHANDISING SEGMENT

(in thousands)	2010	2009	Better / (Worse)
Merchandising Segment Revenues			
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)
Total Merchandising Segment Revenues	\$ 42,806	\$ 52,566	\$ (9,760)
Merchandising Segment Operating Costs and Expenses			
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
Total Merchandising Segment Operating Costs and Expenses	\$ (17,805)	\$ (26,915)	\$ 9,110
Merchandising Segment Operating Income	\$ 25,001	\$ 25,651	\$ (650)

Merchandising segment revenues decreased 19% in 2010 from 2009. 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.

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

Corporate operating costs and expenses decreased 20% in 2010 from 2009. 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

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.

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.

LIQUIDITY AND CAPITAL RESOURCES*Overview*

During 2011, our overall cash, cash equivalents and short-term investments increased \$16.2 million from December 31, 2010 largely from the proceeds received from issuing 11.0 million shares of our Class A Common Stock and one share of Series A Preferred Stock to JCP in exchange for \$38.5 million and the proceeds from selling our cost-based investment in the WeddingWire for \$11.0 million. These proceeds were partially offset by the payment of a special one-time dividend of \$16.7 million, the complete repayment of our outstanding \$9.0 million term loan balance with Bank of America and cash used for capital expenditures and operations during 2011. Cash, cash equivalents and short-term investments were \$49.5 million and \$33.3 million at December 31, 2011 and December 31, 2010, respectively.

During February 2012, we increased our line of credit with Bank of America to \$25.0 million, incorporating a previous \$5.0 million line, which proceeds are available for investment opportunities, working capital, and the issuance of letters of credit. We believe that our available cash balances and short-term investments, along with our new line of credit, will be sufficient to meet our cash needs for working capital and capital expenditures for at least the next 12 months.

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Operating Activities

Our cash inflows from operating activities are generated by our business segments from revenues, as described above, which include cash from advertising and magazine customers and licensing partners. Operating cash outflows generally include employee and related costs, the physical costs associated with producing magazines, the editorial costs associated with creating content across our media platforms, the technology costs associated with our digital properties, the production costs incurred for our television programming and the cash costs of facilities.

Cash (used in) and provided by operating activities was \$(2.2) million, \$1.9 million and \$(9.3) million in 2011, 2010 and 2009, respectively. In 2011, the \$(2.2) million of cash used in operations was the result of our operating loss, as discussed earlier, as well as payments of certain non-recurring Broadcasting segment liabilities established in prior years and a delay in the timing of cash receipts from magazine subscription orders. These decreases in cash from operations were partially offset by the collection of advertising and television license fee receivables and the receipt of an upfront advance payment related to our new multi-book agreement with Clarkson Potter/Publishers for Martha Stewart books.

In 2010, cash provided by operations was \$1.9 million despite our 2010 operating loss. 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. Additionally, in the fourth quarter of 2010, there were significant expenses incurred for several television productions, which were paid in 2011.

In 2009, cash used in operations was \$(9.3) million reflecting our operating loss. In addition, cash was used in operations as the result of lower cash received from Kmart related to lower contractual minimum guaranteed payments and lower 2009 earned royalties. Cash used in operating activities also declined due to lower cash received for new subscriptions during 2009 as the result of higher agency commissions and lower effective subscription rates per copy.

Investing Activities

Our cash inflows from investing activities generally include proceeds from the sale of short-term investments. In 2011, cash inflows from investing activities also included the proceeds from selling a cost-based investment classified as an other noncurrent asset. Investing cash outflows generally include payments for short- and long-term investments and additions to property, plant, and equipment.

Cash provided by and (used in) investing activities was \$6.9 million, \$0.2 million and \$(9.6) million in 2011, 2010 and 2009, respectively. In 2011, the \$6.9 million of cash provided by investing activities was primarily due to the proceeds from selling our cost-based investment in the WeddingWire for \$11.0 million. Those proceeds were partially offset by cash used for capital improvements to our information technology infrastructure and certain costs associated with our websites, as well as the net purchases of short-term investments.

In 2010, cash flow provided by investing activities was \$0.2 million predominantly 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.

In 2009, cash flow used in investing activities was \$(9.6) million reflecting \$8.6 million paid for capital improvements primarily in conjunction with our relocation and consolidation of certain offices. Additionally, cash was used to invest in a non-controlling interest in Ziplist and for net purchases of short-term investments.

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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. Cash outflows from financing activities generally include principal repayments on outstanding debt.

Cash flows provided by and (used in) financing activities were \$10.6 million, \$(4.2) million and \$(5.9) million in 2011, 2010 and 2009, respectively. In 2011, cash provided by financing activities was primarily the result of proceeds received from issuing 11.0 million shares of our Class A Common Stock and one share of Series A Preferred Stock to JCP in exchange for \$38.5 million. These proceeds were partially offset by the payment of a special one-time dividend of \$16.7 million and the complete repayment of our outstanding \$9.0 million term loan balance with Bank of America.

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.

In 2009, we made \$6.0 million in principal pre-payments on our term loan with Bank of America related to the acquisition of certain assets of Emeril Lagasse.

Debt

As of December 31, 2011, we had a line of credit with Bank of America in the amount of \$5.0 million, which was generally used to secure letters of credit. We had no outstanding borrowings under this facility as of December 31, 2011 and had letters of credit outstanding of \$2.6 million which act as security for certain leases. We were compliant with the debt covenants as of December 31, 2011. See Note 17, *Subsequent Events*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for discussion of a new line of credit entered into in 2012.

During February 2012, we increased our line of credit with Bank of America to \$25.0 million, incorporating the previous \$5.0 million line, which proceeds are available for investment opportunities, working capital and the issuance of letters of credit. The interest rate on outstanding amounts is equal to a floating rate of 1-month London Interbank Offered Rate ("LIBOR") Daily Floating Rate plus 1.85%. The unused commitment fee is equal to 0.25%. The line of credit terms require us to be in compliance with certain financial and other covenants. A summary of the most significant financial covenants is as follows:

Financial Covenants

Tangible Net Worth	At least \$40.0 million
Current Ratio	At least 1.75 to 1.0
Unencumbered liquid assets	Equal to or greater than outstanding principal balance plus accrued interest

The loan agreement also contains a variety of other customary affirmative and negative covenants. The loan agreement expires February 14, 2013 and any then outstanding amounts borrowed under the agreement are then due and payable.

In 2008, we 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 interest rate paid in 2011 on all outstanding amounts was equal to a floating rate of 1-month LIBOR plus 2.85%. The loan balance was fully paid as of December 31, 2011.

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Cash Requirements

Our commitments consist primarily of leases for office facilities under operating lease agreements. Future minimum payments under our operating leases are summarized in the table below. See Note 12, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for further discussion.

	Payments due by period (in thousands)					
		Less than			More than	
Contractual Obligations	Total	1 year	1-3 years	3-5 years	5 years	Other
Operating Lease Obligations (1)	\$ 51,688	\$ 11,411	\$ 16,239	\$ 15,200	\$ 8,838	\$ —
Unrecognized Tax Benefits (2)	72	—	—	—	—	72
Total	\$ 51,760	\$ 11,411	\$ 16,239	\$ 15,200	\$ 8,838	\$ 72

- (1) Operating lease obligations are shown net of sublease income in this table. This table is inclusive of the future minimum payments expected to be paid in 2012 towards rent of our television production studio and television administrative office operating lease which runs through June 2012. See Note 13, *Commitments and Contingencies*, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for further discussion of operating leases.
- (2) These amounts represent expected payments with interest for uncertain tax positions as of December 31, 2011. We are not able to reasonably estimate the timing of future cash flows related to \$0.07 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 of this Annual Report on Form 10-K for further discussion of income taxes.

In addition to our contractual obligations, we expect to use approximately \$4.0 million in cash in 2012 for capital expenditures primarily for leasehold improvements to our office space and continued upgrades to our corporate information technology.

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. We also have contractual indemnification obligations with our directors.

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.

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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 updated the then 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 modified 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.

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 our 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).

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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* was sold by Hallmark Channel, with net receipts payable to us quarterly. Hallmark Channel is currently selling television spot advertising for season 7 of *The Martha Stewart Show*. 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 as determined by Hallmark. Television integration revenues are recognized when the segment featuring the related product/brand immersion is initially aired. Television revenues related to talent services provided by 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 typically made by our partners on a quarterly basis. Generally, revenues are accrued based on actual net sales, while any minimum guarantees are earned evenly over the fiscal year. We had an agreement with Kmart dated June 21, 2001, as amended April 22, 2004, which ended in January 2010. Revenues related to our agreement with Kmart had been recorded on a monthly basis based on actual 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.

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

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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. To the extent that estimated future results are losses, capitalized television production costs are written down to zero.

Goodwill and Indefinite-Lived Intangible Assets

We review 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 350, "*Intangibles—Goodwill and Other*" ("ASC 350"). Potential goodwill impairment is measured based upon a two-step process. In the first step, we compare the fair value of a reporting unit with our carrying amount including goodwill using a discounted cash flow ("DCF") valuation method. The DCF analyses are based on the current operating budgets and estimated long-term growth projections for each reporting unit. Future cash flows are discounted based on a market comparable weighted average cost of capital rate for each reporting unit, adjusted for market and other risks where appropriate. In addition, we analyze any difference between the sum of the fair values of the reporting units and our total market capitalization for reasonableness, taking into account certain factors, including control premiums.

If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is considered not impaired, thus rendering unnecessary the second step in impairment testing. If the fair value of the reporting unit is less than the carrying value, a second step is performed in which the implied fair value of the reporting unit's goodwill is compared to the carrying value of the goodwill. The implied fair value of the goodwill is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities of the reporting unit. If the implied fair value of the goodwill is less than the carrying value, the difference is recognized as an impairment charge.

Based on our quantitative assessment performed during the fourth quarter of 2011, the fair value of the goodwill within the Publishing and Merchandising reporting units exceeded its carrying value by more than 15%. For 2011, 2010 and 2009, no impairment charges related to goodwill were deemed necessary.

We estimate fair values based on the future expected cash flows, revenues, earnings and other factors, which consider reporting unit level historical results, current trends, and operating and cash flow projections. Significant judgments inherent in this analysis include estimating the amount of and timing of future cash flows and the selection of appropriate discount rates and long-term growth rate assumptions. Our estimates are subject to uncertainty, and may be affected by a number of factors outside our control, including general economic conditions, the competitive market and regulatory changes. If actual results differ from our estimate of future cash flows, revenues, earnings and other factors, we may record additional impairment charges in the future.

Changes to our estimates and assumptions associated with the reporting units could materially affect the determination of fair value and could result in an impairment charge, which could be material to our financial position and results of operations. Increasing the discount rate we used by 1% would not have resulted in the Publishing or Merchandising reporting unit's carrying value exceeding the fair value.

Long-Lived and Definite-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. In the fourth quarter of 2011, we recorded a non-cash impairment charge of approximately \$1.3 million for a definite-lived intangible asset previously acquired by the Broadcasting segment related to a television content library. Because the future undiscounted cash flows for this asset were determined to be significantly lower than the carrying value, we wrote the asset down to zero.

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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 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 of this Annual Report on Form 10-K for further discussion of income taxes.

Non-Cash Equity Compensation

We currently have a stock incentive plan that permits us to grant various types of stock-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 granted to employees are valued at the market value of traded shares on the date of grant. 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*. Service-based option awards are valued using a Black-Scholes option pricing model. We apply variable accounting to non-employee price-based restricted stock unit awards in accordance with the provisions of ASC Topic 718. The Black-Scholes option pricing model requires numerous assumptions, including expected volatility of our Class A Common Stock price and expected life of the option. Price-based options and price-based restricted stock unit awards are valued using the Monte Carlo Simulation method which takes into account assumptions such as expected volatility of our Class A Common Stock, the risk-free interest rate based on the contractual term of the award, expected dividend yield, vesting schedule, and the probability that the market conditions of the award will be achieved. If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we adopt a different valuation model, the future period calculations of stock-based compensation expense may differ significantly from what we have recorded in the current period and could materially affect our financial statements.

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

We are exposed 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, 2011, net unrealized gains and losses on these investments were not material. However, in 2011, we recorded approximately \$0.3 million in interest income. Our future investment income may fluctuate due to changes in interest rates and levels of cash balances, or we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates before their maturity.

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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.

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 Securities Exchange Act of 1934, as amended (the "Exchange Act")) required by Exchange Act Rules 13a-15(b) or 15d-15(b), 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 Securities and Exchange Commission 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. Their 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 2011, 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.

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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, 2011, 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, 2011, 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, 2011 and 2010, 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, 2011 and our report dated March 6, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
March 6, 2012

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Item 9B. Other Information.

During February 2012, we increased our line of credit with Bank of America to \$25.0 million, incorporating the previous \$5.0 million line, which proceeds are available for investment opportunities, working capital and the issuance of letters of credit. The interest rate on outstanding amounts is equal to a floating rate of 1-month LIBOR Daily Floating Rate plus 1.85%. The unused commitment fee is equal to 0.25%. The line of credit terms require us to be in compliance with certain financial and other covenants. A summary of the most significant financial covenants is as follows:

Financial Covenants

Tangible Net Worth	At least \$40.0 million
Current Ratio	At least 1.75 to 1.0
Unencumbered liquid assets	Equal to or greater than outstanding principal balance plus accrued interest

The loan agreement also contains a variety of other customary affirmative and negative covenants. The loan agreement expires February 14, 2013 and any then outstanding amounts borrowed under the agreement are then due and payable.

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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 2012 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 2011,**" "**EXECUTIVE COMPENSATION AGREEMENTS,**" "**OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2011,**" "**OPTION EXERCISES AND STOCK VESTED DURING 2011,**" 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, 2011.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining
			Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity Compensation plans approved by security holders:	8,658,475(1)	\$ 7.50	1,531,131(2)
Equity Compensation plans not approved by security holders:	416,667(3)	\$ 12.59	N/A
Total	9,075,142	N/A	N/A

- (1) Includes 554,849 shares subject to awards the vesting of which are tied service periods, 208,500 shares subject to awards the vesting of which are tied to satisfaction of performance goals and 540,000 shares subject to awards the vesting of which are tied to the satisfaction of pricing levels in respect of our Class A Common Stock. The weighted average exercise price reported in column (b) does not take these awards into account.

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- (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 of this Annual Report on Form 10-K for further discussion.

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 REGISTERED PUBLIC ACCOUNTING FIRM**" and is hereby incorporated herein by reference.

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:

<u>Exhibit Number</u>	<u>Exhibit Title</u>
3.1	— Martha Stewart Living Omnimedia, Inc. Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1, as amended, file number 333-84001 (the "Registration Statement")).
3.1.1	— Certificate of Designations of the Series A Preferred Stock of Martha Stewart Living Omnimedia, Inc. (incorporated by reference to our Current Report on Form 8-K/A (file number 001-15395) filed on December 13, 2011).
3.2	— Second Amended and Restated By-Laws of Martha Stewart Living Omnimedia, Inc. (incorporated by reference to our Current Report on Form 8-K (file number 001-15395) filed on December 12, 2011).
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 (file number 001-15395) for the quarter ended September 30, 2006 (the "September 2006 10-Q")).
4.2	— Investor Rights Agreement dated as of December 6, 2011 by and between Martha Stewart Living Omnimedia, Inc. and J.C. Penney Corporation, Inc. (incorporated by reference to Exhibit 2 to the Schedule 13D (file number 001-15395) filed by J.C. Penney Company, Inc. on December 16, 2011).
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 (file number 001-15395) for the year ended December 31, 1999 (the "1999 10-K")).
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 (file number 001-15395) for the quarter ended June 30, 2000).
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 (file number 001-15395) filed on May 17, 2005 (the "May 17, 2005 8-K")).
10.2†	— 1999 Non-Employee Director Stock and Option Compensation Plan (incorporated by reference to the Registration Statement) as amended by Exhibit 10.2.1.
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 the May 17, 2005 8-K).
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 Martha Stewart (incorporated by reference to Exhibit 10.8 to the Registration Statement).
10.4†*	— Director Compensation Program

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.5.†	— Amended and Restated Employment Agreement, dated as of July 26, 2011, between Martha Stewart Living Omnimedia, Inc. and Charles A. Koppelman (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2011 ("September 2011 10-Q")), as amended by Exhibit 10.5.1.
10.5.1.†	— Amendment dated as of September 15, 2011 to the Amended and Restated Employment Agreement, dated as of July 26, 2011, between Martha Stewart Living Omnimedia, Inc. and Charles A. Koppelman (incorporated by reference to Exhibit 10.2 to our September 2011 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 to the Registration Statement) as amended by Exhibits 10.6.1 and 10.6.2.
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 10.12.1 to our 1999 10-K).
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 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended March 31, 2008 ("March 2008 10-Q")).
10.7.†	— Employment Agreement, dated as of September 17, 2008, between Martha Stewart Living Omnimedia, Inc. and Robin Marino (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2008 (the "September 2008 10-Q")).
10.8.†	— Letter Agreement, dated as of September 1, 2009, between Martha Stewart Living Omnimedia, Inc. and Peter Hurwitz (incorporated by reference to Exhibit 10.5 to our September 2011 10-Q).
10.9.†	— 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 10.2 to our Quarterly Report on Form 10-Q (file number 001-15395) for the Quarter ended March 31, 2009 ("March 2009 10-Q")).
10.10	— 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 10.9 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended June 30, 2008, as amended by Exhibits 10.10.1 and 10.10.2.
10.10.1	— 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. dated as of June 13, 2008 (incorporated by reference to Exhibit 10.11.1 to our Annual Report on Form 10-K (file number 001-15395) for the year ended December 31, 2009 (the "2009 10-K")).
10.10.2	— 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. dated as of June 13, 2008, as amended (incorporated by reference to Exhibit 10.11.2 to the 2009 10-K).
10.11.†	— Employment Agreement, dated as of March 24, 2009, between Martha Stewart Living Omnimedia, Inc. and Kelli Turner (incorporated by reference to Exhibit 10.1 to our March 2009 10-Q).

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.12†	— 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 10.1 to our Current Report on Form 8-K (file number 001-15395) filed on January 14, 2005).
10.13†	— Registration Rights Agreement between Charles A. Koppelman and Martha Stewart Living Omnimedia, Inc. dated January 24, 2005 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K (file number 001-15395) filed on October 21, 2005).
10.14	— Warrant Registration Rights Agreement, dated as of August 11, 2006, between Martha Stewart Living Omnimedia, Inc. and Mark Burnett (incorporated by reference to Exhibit 10.3 to our September 2006 10-Q).
10.15†	— Services Agreement, dated as of July 26, 2011, between Martha Stewart Living Omnimedia, Inc. and Charles Koppelman (incorporated by reference to Exhibit 10.3 to our September 2011 10-Q).
10.16	— 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. Lagasse, III (incorporated by reference to Exhibit 10.4 to our March 2008 10-Q).
10.17	— 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. (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2009 ("September 2009 10-Q")), as amended by Exhibits 10.17.1, 10.17.2, 10.17.3 and 10.17.4.
10.17.1	— 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. (incorporated by reference to Exhibit 10.22 to our 2009 10-K).
10.17.2	— Waiver and Amendment, 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. (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2010).
10.17.3	— Waiver and Amendment, dated as of March 11, 2011, 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. (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended March 31, 2011 ("March 2011 10-Q")).
10.17.4	— Amendment, dated as of June 29, 2011, 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. ((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, 2011 ("June 2011 10-Q"))).
10.18	— 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. (incorporated by reference to Exhibit 10.1 to our September 2008 10-Q), as amended by Exhibits 10.18.1, 10.18.2, and 10.17.1.

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.18.1	— 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. (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended June 30, 2009).
10.18.2	— 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, (incorporated by reference to Exhibit 10.2 to our September 2009 10-Q).
10.19	— Continuing and Unconditional Guaranty dated as of April 4, 2008 executed by Martha Stewart Living Omnimedia, Inc., MSO IP Holdings, Inc., Martha Stewart, Inc., Body and Soul Omnimedia, Inc., MSLO Productions, Inc., MSLO Productions—Home, Inc., MSLO Productions—EDF, Inc. and Flour Productions, Inc. (incorporated by reference to Exhibit 10.8 to our March 2008 10-Q), as reaffirmed by Exhibit 10.22.1.
10.19.1	— Reaffirmation of Guaranty, dated as of August 7, 2009, executed by Martha Stewart Living Omnimedia, Inc., MSO IP Holdings, Inc., Martha Stewart, Inc., Body and Soul Omnimedia, Inc., MSLO Productions, Inc. MSLO Productions Home, Inc. MSLO Productions—EDF, Inc and Flour Productions, Inc. (incorporated by reference to Exhibit 10.3 to our September 2009 10-Q).
10.20	— 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).
10.21†	— 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")).
10.22†	— 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")).
10.23†	— 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).
10.24†	— Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to our March 2011 10-Q).
10.25†	— Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Unit Agreement for Directors (incorporated by reference to Exhibit 10.2 to our March 2011 10-Q).
10.26†	— 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).
10.27†	— 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).
10.28†	— 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).

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.29†	— 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).
10.30†	— 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).
10.31†	— 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).
10.32†	— 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).
10.33†	— Form of Martha Stewart Living Omnimedia, Inc. Indemnification Agreement for Directors (incorporated by reference to Exhibit 10.1 to our June 2011 10-Q).
10.34†	— Employment Agreement, dated as of May 24, 2011, between Martha Stewart Living Omnimedia, Inc. and Lisa Gersh (incorporated by reference to Exhibit 10.3 to our June 2011 10-Q).
10.35†	— Employment Agreement, dated as of September 6, 2011, between Martha Stewart Living Omnimedia, Inc. and Kenneth P. West (incorporated by reference to Exhibit 10.4 to our September 2011 10-Q).
10.36†*	— Employment Agreement, dated as of August 22, 2011, between Martha Stewart Living Omnimedia, Inc. and Daniel Taitz.
10.37	— Securities Purchase Agreement, dated as of December 6, 2011, by and between Martha Stewart Living Omnimedia, Inc. and J.C. Penney Corporation, Inc. (incorporated by reference to Exhibit 1 to the Schedule 13D (file number 001-15395) filed by J.C. Penney Company, Inc. on December 16, 2011).
10.38†	— Separation Agreement and General Release, dated as of September 13, 2011, between Martha Stewart Living Omnimedia, Inc. and Peter Hurwitz (incorporated by reference to Exhibit 10.5 to our September 2011 10-Q).
10.39*+	— JCP/MSLO Agreement, dated as of December 6, 2011, by and between J.C. Penney Corporation, Inc. and Martha Stewart Living Omnimedia, Inc., as amended by Exhibit 10.39.1.
10.39.1*	— First Amendment, dated as of January 4, 2012, to the JCP/MSLO Agreement, dated as of December 6, 2011, by and between J.C. Penney Corporation, Inc. and Martha Stewart Living Omnimedia, Inc.
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.

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Exhibit Number	Exhibit Title
32*	— Certification of Principal Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS ***	XBRL Instance Document
101.SCH ***	XBRL Taxonomy Extension Schema Document
101.CAL ***	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF ***	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB ***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE ***	XBRL Taxonomy Extension Presentation Linkbase Document

† Indicates management contracts and compensatory plans.

+ Indicates that confidential treatment has been requested as to certain portions of this exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

* 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.

*** In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

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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 6, 2012

MARTHA STEWART LIVING OMNIMEDIA, INC.

By: _____ /s/ LISA GERSH

Lisa Gersh
President and Chief Operating Officer

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>
/s/ LISA GERSH Lisa Gersh	President and Director (Principal Executive Officer)
/s/ KENNETH P. WEST Kenneth P. West	Chief Financial Officer (Principal Financial Officer)
/s/ ALLISON JACQUES Allison Jacques	Controller (Principal Accounting Officer)
/s/ CHARLES A. KOPPELMAN Charles A. Koppelman	Chairman of the Board
/s/ CHARLOTTE BEERS Charlotte Beers	Director
/s/ FREDERIC FEKKAI Frederic Fekkai	Director
/s/ ARLEN KANTARIAN Arlen Kantarian	Director
/s/ MICHAEL W. KRAMER Michael W. Kramer	Director
/s/ WILLIAM A. ROSKIN William A. Roskin	Director
/s/ CLAUDIA SLACIK Claudia Slacik	Director
/s/ TODD SLOTKIN Todd Slotkin	Director

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<u>Signature</u>	<u>Capacity</u>
<u>/s/ MARGARET M. SMYTH</u> <u>Margaret M. Smyth</u>	Director
<u>/s/ MARTHA STEWART</u> <u>Martha Stewart</u>	Director
<u>/s/ DANIEL E. WALKER</u> <u>Daniel E. Walker</u>	Director

Each of the above signatures is affixed as of March 6, 2012

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

Consolidated Financial Statements:

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Consolidated Statements of Shareholders' Equity and Comprehensive Loss for the years ended December 31, 2011, 2010, and 2009	F-5
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Notes to Consolidated Financial Statements	F-7
Financial Statement Schedule II—Valuation and Qualifying Accounts for the years ended December 31, 2011, 2010 and 2009	F-34

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

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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, 2011 and 2010, 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, 2011. 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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, 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 6, 2012 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
New York, New York
March 6, 2012

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MARTHA STEWART LIVING OMNIMEDIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2011, 2010 and 2009
(in thousands except share and per share data)

	2011	2010	2009
REVENUES			
Publishing	\$ 140,857	\$ 145,573	\$ 146,100
Broadcasting	31,962	42,434	46,111
Merchandising	48,614	42,806	52,566
Total revenues	221,433	230,813	244,777
OPERATING COSTS AND EXPENSES			
Production, distribution and editorial	127,084	128,194	125,115
Selling and promotion	57,208	60,288	59,333
General and administrative	46,641	46,362	52,991
Depreciation and amortization	3,978	4,632	7,874
Restructuring charges	5,116	—	—
Impairment charge—other asset	—	—	11,432
Total operating costs and expenses	240,027	239,476	256,745
OPERATING LOSS	(18,594)	(8,663)	(11,968)
OTHER INCOME / (EXPENSE)			
Interest expense, net	(283)	(66)	(101)
Loss on sale of fixed asset	—	(647)	—
Gain on sale of short-term investments	—	1,512	330
Gain/(loss) on equity securities	15	(15)	(877)
Other loss	—	—	(236)
Net gain on sale of cost-based investment	7,647	—	—
Other-than-temporary loss on cost-based investments	(2,724)	—	—
Total other income / (expense)	4,655	784	(884)
LOSS BEFORE INCOME TAXES	(13,939)	(7,879)	(12,852)
Income tax provision	(1,580)	(1,717)	(1,726)
NET LOSS	\$ (15,519)	\$ (9,596)	\$ (14,578)
LOSS PER SHARE—BASIC AND DILUTED			
Net loss	\$ (0.28)	\$ (0.18)	\$ (0.27)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic and diluted	55,880,896	54,440,490	53,879,785

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

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MARTHA STEWART LIVING OMNIMEDIA, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and 2010
(in thousands except share and per share data)

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 38,453	\$ 23,204
Short-term investments	11,051	10,091
Accounts receivable, net	48,237	59,250
Inventory	7,225	5,309
Deferred television production costs	—	2,413
Other current assets	4,858	4,772
Total current assets	<u>109,824</u>	<u>105,039</u>
PROPERTY, PLANT AND EQUIPMENT, net	13,396	14,507
GOODWILL, net	45,107	45,107
OTHER INTANGIBLE ASSETS, net	45,215	46,547
OTHER NONCURRENT ASSETS, net	2,578	11,114
Total assets	<u>\$ 216,120</u>	<u>\$ 222,314</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 23,728	\$ 30,062
Accrued payroll and related costs	7,008	6,541
Current portion of deferred subscription revenue	16,018	18,734
Current portion of other deferred revenue	5,147	4,732
Current portion loan payable	—	1,500
Total current liabilities	<u>51,901</u>	<u>61,569</u>
DEFERRED SUBSCRIPTION REVENUE	3,975	4,529
OTHER DEFERRED REVENUE	2,333	1,413
LOAN PAYABLE	—	7,500
DEFERRED INCOME TAX LIABILITY	5,874	4,527
OTHER NONCURRENT LIABILITIES	4,090	3,743
Total liabilities	<u>68,173</u>	<u>83,281</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Series A Preferred Stock, 1 share issued and outstanding in 2011	—	—
Class A Common Stock, \$0.01 par value, 350,000,000 shares authorized; 40,893,964 and 28,753,212 shares issued and outstanding in 2011 and 2010, respectively	409	288
Class B Common Stock, \$0.01 par value, 150,000,000 shares authorized; 25,984,625 and 26,317,960 shares issued and outstanding in 2011 and 2010	260	263
Capital in excess of par value	336,661	295,576
Accumulated deficit	(188,442)	(156,201)
Accumulated other comprehensive loss	(166)	(118)
	<u>148,722</u>	<u>139,808</u>
Less: Class A treasury stock—59,400 shares at cost	(775)	(775)
Total shareholders' equity	<u>147,947</u>	<u>139,033</u>
Total liabilities and shareholders' equity	<u>\$ 216,120</u>	<u>\$ 222,314</u>

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

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MARTHA STEWART LIVING OMNIMEDIA, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE LOSS
For the Years Ended December 31, 2011, 2010 and 2009
(in thousands)

	Class A		Class B		Capital in excess of par value	Accumulated Deficit	Accumulated Comprehensive Income/(Loss)	Class A		Total
	Common Stock	Common Stock	Common Stock	Treasury Stock				Shares	Amount	
	Shares	Amount	Shares	Amount				Shares	Amount	
Balance at January 1, 2009	28,204	\$ 282	26,690	\$ 267	\$ 283,248	\$ (132,027)	\$ —	(59)	\$ (775)	\$150,995
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 option 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
Balance at December 31, 2009	28,313	283	26,690	267	290,387	(146,605)	263	(59)	(775)	143,820
Comprehensive loss:										
Net loss	—	—	—	—	—	(9,596)	—	—	—	(9,596)
Other comprehensive loss:										
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 option 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
Balance at December 31, 2010	28,753	288	26,318	263	295,576	(156,201)	(118)	(59)	(775)	139,033
Comprehensive loss:										
Net loss	—	—	—	—	—	(15,519)	—	—	—	(15,519)
Other comprehensive loss:										
Unrealized loss on investment	—	—	—	—	—	—	(48)	—	—	(48)
Total comprehensive loss	—	—	—	—	—	—	—	—	—	(15,567)
Conversion of shares	333	3	(333)	(3)	—	—	—	—	—	—
Issuance of shares in conjunction with stock option exercises	840	8	—	—	1,704	—	—	—	—	1,712
Issuance of shares of stock and restricted stock, net of cancellations and tax withholdings	(32)	—	—	—	(78)	—	—	—	—	(78)
Issuance of shares of stock in connection with equity sale, net of expenses	11,000	110	—	—	34,483	—	—	—	—	34,593
Common stock dividends	—	—	—	—	—	(16,722)	—	—	—	(16,722)
Non-cash equity compensation	—	—	—	—	4,976	—	—	—	—	4,976
Balance at December 31, 2011	40,894	\$ 409	25,985	\$ 260	\$ 336,661	\$ (188,442)	\$ (166)	(59)	\$ (775)	\$147,947

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

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MARTHA STEWART LIVING OMNIMEDIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011, 2010 and 2009
(in thousands)

	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	\$ (15,519)	\$ (9,596)	\$ (14,578)
Adjustments to reconcile net loss to net cash (used in)/provided by operating activities:			
Non-cash revenue	(1,062)	(4,608)	(13,446)
Depreciation and amortization	3,978	4,632	7,874
Amortization of deferred television production costs	23,964	27,269	20,651
Impairment charge	—	—	11,432
Other-than-temporary loss on cost-based investments	2,724	—	—
Non-cash equity compensation	5,020	5,400	7,947
Deferred income tax expense	1,346	1,327	1,347
(Income)/loss on equity securities	(15)	15	877
Gain on sale of short-term investment	—	(1,512)	(330)
Net gain on sale of cost-based investment	(7,647)	—	—
Loss on sale of fixed assets	—	647	—
Other non-cash charges, net	1,907	563	683
<i>Changes in operating assets and liabilities</i>			
Accounts receivable, net	11,013	(711)	(3,864)
Inventory	(1,916)	(143)	887
Deferred television production costs	(21,395)	(25,894)	(20,363)
Accounts payable and accrued liabilities and other	(6,292)	4,969	(1,914)
Accrued payroll and related costs	467	(954)	(30)
Deferred subscription revenue	(3,270)	(996)	(5,212)
Deferred revenue	2,241	(484)	5
Other changes	2,236	1,948	(1,239)
<i>Total changes in operating assets and liabilities</i>	(16,916)	(22,265)	(31,730)
Net cash (used in)/provided by operating activities	(2,220)	1,872	(9,273)
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(2,879)	(4,707)	(8,609)
Proceeds from the sale of fixed assets	—	1,403	—
Purchases of short-term investments	(8,414)	(15,345)	(25,010)
Sales of short-term investments	7,179	18,802	24,830
Proceeds from the sale of cost-based investment	11,000	—	—
Investment in other non-current assets	—	—	(828)
Net cash provided by/(used in) investing activities	6,886	153	(9,617)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long-term debt	(9,000)	(4,500)	(6,000)
Dividends paid	(16,722)	—	—
Proceeds from equity sale, net of expenses	34,593	—	—
Proceeds from exercise of stock options	1,712	295	70
Net cash provided by/(used in) financing activities	10,583	(4,205)	(5,930)
Net increase/(decrease) in cash	15,249	(2,180)	(24,820)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	23,204	25,384	50,204
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 38,453	\$ 23,204	\$ 25,384

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

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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.

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 and branding 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

In September 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2011-08, "*Intangibles—Goodwill and Other: Testing Goodwill for Impairment*" ("ASU 2011-08"), which amended Accounting Standards Codification ("ASC") 350, "*Intangibles—Goodwill and Other*." This amendment is intended to simplify how an entity tests goodwill for impairment and allows an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. An entity no longer is required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that the reporting unit's fair value is less than its carrying amount. The more-likely-than-not threshold is defined as having a likelihood of more than 50%. ASU 2011-08 was effective for the Company beginning January 1, 2012, although early adoption was permitted. The Company does not expect ASU 2011-08 to have an impact on its consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU 2011-05, "*Comprehensive Income: Presentation of Comprehensive Income*," ("ASU 2011-05") which amended ASC 220, "*Presentation of Comprehensive Income*." In accordance with the new guidance, an entity will no longer be permitted to present comprehensive income in its consolidated statements of stockholders' equity. Instead, entities will be required to present components of comprehensive income in either one continuous financial statement with two sections, net income and comprehensive income, or in two separate but consecutive statements. The guidance, which must be applied retroactively, was effective for the Company beginning January 1, 2012. The adoption of ASU 2011-05 concerns disclosure only and the Company does not expect ASU 2011-05 to have an impact on its consolidated financial position, results of operations or cash flows.

In May 2011, the FASB issued ASU 2011-04, "*Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*," ("ASU 2011-04") which amended ASC 820, "*Fair Value Measurement*." This amendment is intended to result in convergence between accounting principles generally accepted in the United States ("GAAP") and International Financial Reporting Standards requirements for measurement of and disclosures about fair value. This amendment clarifies the application of existing fair value measurements and disclosures, and changes certain principles or requirements for fair value measurements and disclosures. ASU 2011-04 is effective for the year beginning January 1, 2012. The Company is currently assessing the potential impact, if any, ASU 2011-04 may have on its consolidated financial position, results of operations and cash flows.

In October 2009, the FASB issued 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.

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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.

ASC 810, "*Consolidation*" ("ASC 810"), provides a framework for identifying variable interest entities ("VIEs") and determining when a company should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements.

In general, a VIE is a corporation, partnership, limited liability company, trust, or any other legal structure used to conduct activities or hold assets that either (1) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (2) has a group of equity owners that are unable to make significant decisions about its activities, or (3) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

Consolidation of a VIE is evaluated using a qualitative approach, based on determination of which party has the power to direct the most economically significant activities of the entity. 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. ASC 810 requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE.

As of December 31, 2011, the Company has one cost-based investment in a technology company that represents an interest in a VIE. There are no future contractual funding commitments at this time. The Company has determined that the Company is not the primary beneficiary of this entity since the Company does not have the power to direct the activities that most significantly impact the entity's economic performance. Accordingly, the Company does not consolidate this entity. In addition, the Company is not exposed to any further risk of loss from its interest in the VIE since the cost-based investment was impaired and has no carrying value on the Company's balance sheet as of December 31, 2011. See the discussion in this footnote, specifically under "*Other non-current assets*" for further information.

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 2010 and 2009 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 for that year. Accordingly, as of December 31, 2011 and 2010, the Company no longer held investments in equity securities with readily determinable fair values.

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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 generally less than one year, from the date of acquisition. See Note 3, *Fair Value Measurements*, for further discussion.

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. To the extent that estimated future results are losses, capitalized television production costs are written down to zero.

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, 2011 and 2010 are set forth in the schedule below, and are reported within the Publishing and Merchandising segments:

(In thousands)		
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 350, "*Intangibles—Goodwill and Other*" ("ASC 350"). Potential goodwill impairment is measured based upon a two-step process. In the first

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step, the Company compares the fair value of a reporting unit with its carrying amount including goodwill using a discounted cash flow ("DCF") valuation method. The DCF analyses are based on the current operating budgets and estimated long-term growth projections for each reporting unit. Future cash flows are discounted based on a market comparable weighted average cost of capital rate for each reporting unit, adjusted for market and other risks where appropriate. In addition, the Company analyzes any difference between the sum of the fair values of the reporting units and its total market capitalization for reasonableness, taking into account certain factors, including control premiums.

If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired, thus rendering unnecessary the second step in impairment testing. If the fair value of the reporting unit is less than the carrying value, a second step is performed in which the implied fair value of the reporting unit's goodwill is compared to the carrying value of the goodwill. The implied fair value of the goodwill is determined based on the difference between the fair value of the reporting unit and the net fair value of the identifiable assets and liabilities of the reporting unit. If the implied fair value of the goodwill is less than the carrying value, the difference is recognized as an impairment charge. For 2011, 2010 and 2009, no impairment charges related to goodwill were deemed necessary.

The Company estimates fair values based on the future expected cash flows, revenues, earnings and other factors, which consider reporting unit level historical results, current trends, and operating and cash flow projections. Significant judgments inherent in this analysis include estimating the amount of and timing of future cash flows and the selection of appropriate discount rates and long-term growth rate assumptions. 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.

Intangible assets

The components of intangible assets as of December 31, 2011, 2010 and 2009 are set forth in the schedule below, and are reported within the Publishing, Broadcasting and Merchandising segments:

	Balance at		Balance at			Balance at
	December 31,	Amortization	December 31,	Amortization	Impairment	December 31,
(In thousands)	2009	expense	2010	expense	expense	2011
Trademarks	\$ 45,200	\$ —	\$ 45,200	\$ —	\$ —	\$ 45,200
Other intangibles	6,160	—	6,160	—	—	6,160
Accumulated amortization — other intangibles	(4,290)	(523)	(4,813)	(12)	(1,320)	(6,145)
Total	<u>\$ 47,070</u>	<u>\$ (523)</u>	<u>\$ 46,547</u>	<u>\$ (12)</u>	<u>\$ (1,320)</u>	<u>\$ 45,215</u>

The Company reviews intangible assets with indefinite useful lives for impairment by applying a fair-value based test annually or more frequently if events or changes in circumstances warrant, in accordance with ASC 350. The Company performs the impairment test by comparing the fair value of an intangible asset with its carrying amount. If the carrying amount of an intangible asset exceeds its fair value, an impairment loss must be recognized in an amount equal to that excess. The Company estimates fair values using the DCF methodology based on the future expected cash flows, revenues, earnings and other factors, which consider reporting unit 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 2011, 2010, and 2009, no impairment charges for intangible assets with indefinite useful lives were deemed necessary.

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The Company reviews long-lived tangible assets and intangible assets with definite useful lives for impairment whenever events or changes in circumstances indicate that their carrying values may not be recoverable and exceeds their fair value, in accordance with ASC 360, "*Property, Plant, and Equipment*." 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. An impairment loss is measured as the amount by which the carrying amount exceeds the fair value. The Company evaluates intangible assets with definite 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.

The Company amortizes intangible assets with definite lives over their estimated useful lives and reviews these assets for impairment. The Company is currently amortizing one acquired intangible asset with a remaining definite life through March 2013.

In the fourth quarter of 2011, the Company recorded a non-cash impairment charge of approximately \$1.3 million for a definite-lived intangible asset previously acquired by the Broadcasting segment related to a television content library. Because the future undiscounted cash flows for this asset were determined to be significantly lower than the carrying value, the Company wrote the asset down to zero. For the years ended December 31, 2010 and 2009, no impairment charges for long-lived tangible and intangible assets with definite useful lives were deemed necessary.

Investments in other non-current assets

The Company has investments in preferred stock of several technology companies accounted for under the cost method. As of December 31, 2010, the Company's aggregate carrying value of these cost-based investments was \$5.8 million and was included within other noncurrent assets in the consolidated balance sheet. Cost-based investments are analyzed for impairment quarterly based on current market conditions and other factors relative to those investments.

During the fourth quarter of 2011 the Company sold its cost-based investment in WeddingWire, Inc. ("WeddingWire") for \$11.0 million in cash. The transaction resulted in a gain of \$7.6 million, which represents cash received in excess of the \$3.0 million carrying value of this cost-based investment and the \$0.4 million intangible asset related to an associated commercial agreement with WeddingWire. The Company also recorded other-than-temporary losses of approximately \$2.7 million to write down the carrying value of cost-based investments in pingg and Ziplist after concluding that the Company's investments in pingg and Ziplist were substantially impaired. This conclusion was the result of analyzing recent results, cash levels, and prospects for raising additional capital by these two entities, as well as a shift by the Company's new executive management team in the Company's strategic focus away from these entities. The write-down of approximately \$2.7 million reduced the value of these cost-based investments to zero as of December 31, 2011. Each of these three transactions is included in "Other income/(expense)" on the Company's consolidated statement of operations for 2011.

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.

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.

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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 beginning with season 6 of *The Martha Stewart Show* in September 2010 has been 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 as determined by Hallmark Channel. Television integration revenues are recognized when the segment featuring the related product/brand immersion is initially aired. Television revenues related to talent services provided by 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. 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 typically made by the Company's partners on a quarterly basis. Generally, revenues are accrued based on actual net sales, while any minimum guarantees are earned evenly over the fiscal year. Prior to 2010, the Company historically recognized a substantial portion of the revenue resulting from the difference between the minimum royalty amount (under a licensing agreement with Kmart Corporation ("Kmart") dated June 21, 2001, as amended April 22, 2004) and royalties paid on actual sales in the fourth quarter of each year, when the amount could be determined. The Company's agreement with Kmart ended in January 2010.

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, product integrations on the Company's television 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 ASU 09-13, on a prospective basis, arrangements executed on or after January 1, 2010 have been subject to the new guidance. ASU 09-13 updated the existing multiple-element arrangement guidance in ASC 605.

ASC 605 and ASU 09-13 require that the Company examine separate contracts with the same entity or related parties that are entered into simultaneously or near the same time to determine if the arrangements should

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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, 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, revenue is recognized 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 that 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).

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, 2011, 2010 and 2009, the shares of the Company's \$0.01 par value Class A common stock ("Class A Common Stock") 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 7,345,060, 5,389,222 and 5,696,344.

Use of estimates

The preparation of financial statements in conformity with GAAP 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.

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Equity compensation

The Company has issued stock-based compensation to certain of its employees and a non-employee consultant. In accordance with the fair-value recognition provisions of ASC Topic 718, *Share-Based Payments* ("ASC Topic 718") and SEC Staff Accounting Bulletin No. 107, compensation cost associated with employee grants recognized in the 2011, 2010 and 2009 was based on the grant date fair value estimated in accordance with the provisions of ASC Topic 718. The Company applies variable accounting to its non-employee price-based restricted stock unit ("RSU") awards in accordance with the provisions of ASC Topic 718. Employee stock option, restricted stock, and RSU awards with service period-based vesting triggers ("service period-based" awards) are amortized as non-cash equity compensation expense on a straight-line basis over the expected vesting period. The Company values service period-based option awards using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires numerous assumptions, including volatility of the Company's Class A Common Stock and expected life of the option. Service period-based restricted stock and RSU awards are valued at the market value of traded shares on the date of grant. Recognition of compensation expense for awards intended to vest upon the achievement of certain adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") targets over a performance period ("performance-based" awards) is based on the probable outcome of the performance condition. Compensation cost is accrued if it is probable that the performance condition will be achieved and is not accrued if it is not probable that the performance condition will be achieved. Options and RSUs with Class A Common Stock price-based vesting triggers ("price-based" awards) are valued using the Monte Carlo Simulation method which takes into account assumptions such as volatility of the Company's Class A Common Stock, the risk-free interest rate based on the contractual term of the award, the expected dividend yield, the vesting schedule, and the probability that the market conditions of the award will be achieved.

Other

Certain prior year financial information has been reclassified to conform to the 2011 financial statement presentation. Certain facilities costs related to the Company's television production studio have been reclassified from general and administrative costs to production, print and distribution costs on the consolidated statement of operations for 2010 and 2009 in the amounts of approximately \$4.0 million and \$3.6 million, respectively.

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.
- 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.

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

	December 31, 2011			
	Quoted Market			
	Prices in Active	Significant		
	Markets for	Other	Significant	
	Identical Assets	Observable	Unobservable	Total
	(Level 1)	Inputs (Level 2)	Inputs (Level 3)	Fair Value Measurements
(in thousands)				
Short-term investments:				
U.S. government and agency securities	\$ —	\$ 3,858	\$ —	\$ 3,858
Corporate obligations	—	5,122	—	5,122
Other fixed income securities	—	545	—	545
International securities	—	1,526	—	1,526
Total	\$ —	\$ 11,051	\$ —	\$ 11,051

	December 31, 2010			
	Quoted Market			
	Prices in Active	Significant		
	Markets for	Other	Significant	
	Identical Assets	Observable	Unobservable	Total
	(Level 1)	Inputs (Level 2)	Inputs (Level 3)	Fair Value Measurements
(in thousands)				
Short-term investments:				
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
Total	\$ —	\$ 10,091	\$ —	\$ 10,091

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. See Note 2, *Summary of Significant Accounting Policies*, for further discussion on measuring the Company's non-financial assets.

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4. ACCOUNTS RECEIVABLE, NET

The components of accounts receivable at December 31, 2011 and 2010 were as follows:

<u>(in thousands)</u>	<u>2011</u>	<u>2010</u>
Advertising	\$ 29,252	\$ 36,529
Licensing	17,484	19,888
Other	3,131	4,335
	49,867	60,752
Less: reserve for credits and uncollectible accounts	1,630	1,502
	<u>\$ 48,237</u>	<u>\$ 59,250</u>

5. INVENTORIES

Inventory is comprised of paper, and was valued at \$7.2 million and \$5.3 million at December 31, 2011 and 2010, respectively. Cost is determined using the FIFO method.

6. PROPERTY, PLANT AND EQUIPMENT, NET

The components of property, plant and equipment as of December 31, 2011 and 2010 were as follows:

<u>(in thousands)</u>	<u>2011</u>	<u>2010</u>
Studios and equipment	\$ 3,702	\$ 4,202
Furniture, fixtures and equipment	6,144	7,702
Computer hardware and software	9,096	8,404
Leasehold improvements	29,665	29,690
Total Property, Plant and Equipment	48,607	49,998
Less: accumulated depreciation and amortization	35,211	35,491
Net Property, Plant and Equipment	<u>\$ 13,396</u>	<u>\$ 14,507</u>

Depreciation and amortization expenses related to property, plant and equipment were \$3.9 million, \$3.8 million and \$6.4 million, for 2011, 2010 and 2009, respectively.

7. CREDIT FACILITIES

As of December 31, 2011, the Company had a line of credit with Bank of America N.A. ("Bank of America") in the amount of \$5.0 million, which was generally used to secure letters of credit. The Company had no outstanding borrowings under this facility as of December 31, 2011 and had letters of credit outstanding of \$2.6 million which act as security for certain leases. The Company was compliant with the debt covenants as of December 31, 2011. See Note 17, *Subsequent Events*, for discussion of an increased line of credit in 2012.

In 2008, 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 interest rate paid on all outstanding amounts during 2011 was equal to a floating rate of 1-month London Interbank Offered Rate ("LIBOR") plus 2.85%. The loan balance was paid in full in December 2011. In connection with the loan repayment, the Company expensed deferred financing charges of approximately \$0.2 million.

8. SHAREHOLDERS' EQUITY

Preferred Stock, Strategic investor

In December 2011, J. C. Penney Corporation, Inc. ("JCP") purchased 11,000,000 newly-issued shares of the Class A Common Stock and one share of the Company's Series A Preferred Stock in exchange for cash of \$38.5 million. The investment in the Class A Common Stock represented approximately 16.6% of the Company's total

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Class A Common Stock outstanding immediately after the issuance. The single share of the Series A Preferred Stock entitles JCP to nominate and elect two directors to the Company's board of directors (the "Board"), has nominal liquidation preference, is not convertible into shares of the Company's common stock, does not have a dividend preference, and is transferrable only to certain JCP affiliated entities. In connection with its Class A Common Stock, JCP is entitled to three demand registrations and piggyback rights; however, JCP may not exercise its demand registration rights until the earlier of December 2014 and the date the number of independent members of the Company's Board, plus the JCP members of the Board, constitutes less than a majority of the members of the Board. Until December 2015, JCP is also generally prohibited from taking certain takeover actions towards the Company without consent from the Board. JCP is further prohibited from transferring its shares of Class A Common Stock to any person other than certain affiliates, or in connection with a Board approved acquisition transaction, or in an open market transaction, or by a registration statement as long as the transferee will own less than 5% of the then-outstanding shares of the Company's common stock after the transfer.

Common Stock

The Company has two classes of common stock outstanding. The \$0.01 par value Class B common stock ("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.

Dividends

During December 2011 the Board declared and paid a special one-time dividend of \$0.25 per share of common stock for a total dividend payment of \$16.7 million.

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, 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 \$0.6 million, \$0.8 million and \$1.0 million for 2011, 2010 and 2009, 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 Class A Common Stock. The Compensation Committee of the Board 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 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 Board adopted the Martha Stewart Living Omnimedia, Inc. Stock and Compensation Plan (the "Stock Plan"), which was approved by the Company's stockholders at the Company's 2008 annual meeting in May 2008. The Stock Plan has 10,000,000 shares of Class A Common Stock available for issuance. The Stock

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Plan replaced the 1999 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 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. The primary types of incentives that have been granted under the Stock Plan are stock options and RSUs.

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 2011, 2010 and 2009, the Company recorded non-cash equity compensation expense of \$5.5 million, \$5.4 million, and \$7.9 million, respectively.

Black-Scholes Assumptions

The Company uses the Black-Scholes option pricing model to value options and warrants that only have service period-based vesting triggers. 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.

Monte Carlo Simulation Assumptions

The Company uses the Monte Carlo Simulation method to value options and RSUs with price-based vesting triggers. This method requires numerous assumptions, including expected volatility of the Company's Class A Common Stock price and expected service periods.

Stock Options

Options which were issued under the 1999 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 was available, without regard to after-hours trading. Options granted under the 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 and terms for the Company's stock options, which may include service period-based, performance-based, or price-based vesting triggers. Generally, service period-based employee stock options vest ratably on each of either the first three or four anniversaries of the grant date. Service period-based non-employee director options generally vest over a one-year period from the grant date. Performance-based and price-based options vest only when the specific vesting triggers of the award are achieved. Option awards usually do not provide for accelerated vesting upon retirement, death, or disability unless specifically included in the applicable award agreement. The amount of non-cash equity compensation expense the Company recognizes during a period is based on the portion of the option awards that are ultimately expected to vest. The Company estimates option forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. Option expense for 2011, 2010 and 2009 was \$2.4 million, \$3.3 million and \$2.9 million, respectively. As of December 31, 2011 and 2010, there was \$2.7 million and \$4.2 million, respectively, of total unrecognized compensation cost related to stock options to be recognized over a weighted average period of 3.0 years. The intrinsic value of options exercised during 2011 was \$2.1 million, with intrinsic value defined as the difference between the market price on the date of exercise and the grant date price. For 2010, this value was insignificant. The total cash received (classified as financing cash flows) from the exercise of stock options was \$1.7 million and \$0.3 million for 2011 and 2010, respectively.

Stock options under the Stock Plan were issued to employees as follows: 2,565,559 in 2011, 870,002 in 2010, and 3,805,765 in 2009.

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Risk-free interest rates	0.17% – 2.09%	1.0% – 1.6%	0.9% – 2.33%
Dividend yields	Zero	Zero	Zero
Expected volatility	60.38% – 61.25%	61.8% – 63.8%	45.1% – 64.3%
Expected option life	1.0 – 7.0 years	2.5 – 3.7 years	2.5 – 3.7 years
Average fair market value per option granted	\$0.75 - \$2.56	\$2.14 – \$2.61	\$0.71 – \$3.29

Note: This table represents a blend of assumptions.

The fair value of employee price-based option awards was estimated on the grant date using the Monte Carlo Simulation method on the basis of the following weighted average assumptions:

	<u>2011</u>
Risk-free interest rate	1.34% – 2.29%
Expected volatility	59.72% – 60.55%
Expected service period	0.46 – 2.0 years
Dividends	Zero
Estimated value of price-based option awards	\$0.42 – \$2.35

Changes in outstanding options under the Prior Plans during 2011 and 2010 were as follows:

	Number of shares subject to options	Weighted average exercise price
Outstanding as of December 31, 2009	2,832,867	\$ 13.37
Exercised—service period-based	(3,500)	6.78
Cancelled—service period-based	(249,467)	21.55
Outstanding as of December 31, 2010	2,579,900	\$ 12.59
Cancelled—service period-based (1)	(443,375)	9.51
Outstanding as of December 31, 2011	2,136,525	\$ 13.23
Options exercisable at December 31, 2011	2,136,525	\$ 13.23

(1) Includes approximately 310,000 options cancelled in connection with the departure of certain executives in the Merchandising segment.

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Changes in outstanding options under the Stock Plan during 2011 and 2010 were as follows:

	Number of shares subject to options	Weighted average exercise price
Outstanding as of December 31, 2009	4,200,499	\$ 3.87
Granted—service period-based	870,002	5.45
Exercised—service period-based	(138,249)	1.96
Cancelled—service period-based	(190,376)	4.30
Outstanding as of December 31, 2010	4,741,876	\$ 4.20
Granted—service period-based	1,740,559	3.93
Granted—price-based	825,000	9.00
Exercised—service period-based	(840,000)	2.04
Cancelled—service period-based (1)	(1,082,167)	4.28
Cancelled—performance-based	(166,667)	5.80
Outstanding as of December 31, 2011	5,218,601	\$ 5.15
Options exercisable at December 31, 2011	2,012,250	\$ 5.19
Shares available for grant at December 31, 2011	1,531,131	

- (1) Includes approximately 471,000 and 350,000 options cancelled in connection with the departure of certain executives in the Merchandising segment and Corporate.

The following table summarizes information about the shares subject to stock options outstanding under the Company's Prior Plans and the Stock Plan as of December 31, 2011:

Range of Exercise Price Per Share	Weighted Average Remaining Contractual Life in Years	Shares Subject to Options Outstanding		Shares Subject to Options Exercisable	
		Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$1.96 – \$12.00	6.7	6,389,726	5.52	3,183,375	5.92
\$14.90 – \$15.75	0.1	400	15.75	400	15.75
\$15.90	0.1	150,000	15.90	150,000	15.90
\$16.45 – \$18.90	2.9	415,000	18.54	415,000	18.54
\$19.92 – \$26.25	3.8	200,000	20.35	200,000	20.35
\$26.56 – \$33.75	3.1	200,000	28.55	200,000	28.55
\$1.96 – \$33.75	6.2	7,355,126	7.50	4,148,775	9.33

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Stock Option awards to new hires in 2011

During 2011, the Company made awards under the Stock Plan to several new members of its executive management team, as provided for in their employment agreements. Certain of such awards include only service period-based vesting triggers and consist of options to purchase an aggregate of 550,000 shares of Class A Common Stock at various exercise prices (in each case the closing price on the dates of grant), which options vest as to 183,333 shares on each of the second, third, and fourth anniversaries of the employment start dates of the relevant employees. Non-cash equity compensation expense of approximately \$0.1 million was recorded for the year ended December 31, 2011 related to these awards. The Company measured the fair value of these awards as of the grant dates using the Black-Scholes option pricing model, which fair value is recognized over the service period of the awards. As of December 31, 2011, there was \$0.9 million of total unrecognized compensation cost related to these service period-based stock option awards to be recognized over a period of 3.9 years. The following table summarizes the assumptions used in the Black-Scholes option-pricing model:

Risk-free interest rates	0.511% – 0.629%
Dividend	Zero
Expected volatility	60.80% – 61.25%
Expected option life	3.7 years
Average fair value per option granted	\$1.30 – \$2.17

The Company also made option awards to these employees which include price-based vesting triggers. The price-based option awards consisted of options to purchase an aggregate of 825,000 shares of Class A Common Stock. Of these, options for 206,250 shares with an exercise price of \$6 per share will vest only at such time as the trailing average closing price of the Class A Common Stock during any 30 consecutive trading days during the term of the applicable employment agreements ("the trailing average") has been at least \$6, options for 206,250 shares with an exercise price of \$8 per share will vest only at such time as such trailing average has been at least \$8, options for 206,250 shares with an exercise price of \$10 per share will vest only at such time as such trailing average has been at least \$10, and options for 206,250 shares with an exercise price of \$12 per share will vest only at such time as such trailing average has been at least \$12. Non-cash equity compensation expense of approximately \$0.5 million was recorded for the year ending December 31, 2011 related to these price-based awards. The Company measured the fair value of these price-based awards as of the grant dates using the Monte Carlo Simulation method, which fair value is recognized over the expected service period of the awards. As of December 31, 2011, there was \$0.5 million of total unrecognized compensation cost related to these price-based stock option awards to be recognized over the expected service period listed below. See above for the Monte Carlo Simulation method weighted average assumptions.

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. RSUs represent the contingent right to one share of Class A Common Stock. The Compensation Committee determines the vesting period and terms for the Company's restricted stock and RSUs, which may include service period-based, performance-based, or price-based vesting triggers. Service period-based restricted stock and RSUs are generally expensed ratably over the vesting period, typically ranging from three to four years. Performance-based and price-based RSUs vest only when the specific vesting triggers of the award are achieved. The amount of non-cash equity compensation expense the Company recognizes during a period is based on the portion of the restricted stock and RSU awards that are ultimately expected to vest. The Company estimates restricted stock and RSU forfeitures at the time of grant and revises those estimates in subsequent periods if actual forfeitures differ from those estimates. Restricted stock and RSUs usually do not provide for accelerated vesting upon retirement, death, or disability unless specifically included in the applicable award agreement. Restricted stock and RSU expense for 2011, 2010 and 2009 was \$3.1 million, \$2.1 million and \$5.1 million, respectively.

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Service period-based restricted stock

The fair value of service period-based shares of restricted stock under the Prior Plans was determined based on the closing price of the Company's Class A Common Stock on the day preceding the grant date. As of December 31, 2011, all such shares had vested. As of December 31, 2010 and 2009, the weighted-average grant date fair values of service period-based 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 service period-based nonvested restricted stock to be recognized over a weighted-average period of less than one-half year.

A summary of the shares of service period-based restricted stock issued under the Prior Plans as of December 31, 2011 and changes during 2011 are as follows:

<u>(in thousands, except share data)</u>	<u>Shares</u>	<u>Weighted</u>	
		<u>Average Grant</u>	
		<u>Date Value</u>	
Nonvested at December 31, 2010	61,693	\$	7.27
Vested (1)	(54,213)		7.31
Forfeitures	(7,480)		7.04
Nonvested at December 31, 2011	<u>—</u>	<u>\$</u>	<u>—</u>

- (1) Included in the gross shares vested during 2011 are 21,671 shares of Class A Common Stock which were surrendered by recipients in order to fulfill their tax withholding obligations.

The fair value of service period-based nonvested shares under the Stock Plan is determined based on the closing price of the Company's Class A Common Stock on the grant dates. As of December 31, 2010, the weighted-average grant date fair value of service period-based nonvested shares was \$4.4 million. As of December 31, 2011, there was no unrecognized compensation cost related to service period-based nonvested restricted stock.

A summary of the shares of service period-based restricted stock issued under the Stock Plan that had not yet vested as of December 31, 2011 and changes during 2011 are as follows:

<u>(in thousands, except share data)</u>	<u>Shares</u>	<u>Weighted</u>	
		<u>Average Grant</u>	
		<u>Date Value</u>	
Nonvested at December 31, 2010	320,922	\$	8.24
Granted	33,037		4.01
Vested (1)	(128,097)		6.93
Forfeitures (2)	(217,510)		8.52
Nonvested at December 31, 2011	<u>8,352</u>	<u>\$</u>	<u>4.49</u>

- (1) Included in the gross shares vested during 2011 are 1,539 shares of Class A Common Stock which were surrendered by recipients in order to fulfill their tax withholding obligations.
- (2) Included in the gross shares forfeited during 2011 are 200,000 shares of Class A Common Stock which were forfeited in connection with the July 2011 amended and restated employment agreement entered into between the Company and Charles A. Koppelman, the Executive Chairman of the Company. See "*Non-employee equity compensation*" below for further discussion.

Service period-based RSUs

The fair value of service period-based nonvested RSUs under the Stock Plan is determined based on the closing price of the Company's Class A Common Stock on the grant dates. As of December 31, 2011, the weighted-average grant date fair values of service period-based nonvested RSUs were \$6.3 million. As of December 31, 2011, there was \$1.7 million of total unrecognized compensation cost related to service period-based nonvested RSUs to be recognized over a weighted-average period of approximately 1.5 years.

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A summary of the shares of service period-based RSUs issued under the Stock Plan that had not yet vested as of December 31, 2011 and changes during 2011 is as follows:

<u>(in thousands, except share data)</u>	<u>Shares</u>	<u>Weighted</u>	
		<u>Average Grant</u>	
		<u>Date</u>	<u>Value</u>
Nonvested at December 31, 2010	—	\$	—
Granted	639,698		4.11
Vested	(12,500)		3.95
Forfeitures (1)	(87,500)		3.95
Nonvested at December 31, 2011	<u>539,698</u>	<u>\$</u>	<u>4.14</u>

(1) Includes approximately 25,000 RSUs forfeited in connection with the departure of certain executives in the Merchandising segment.

Performance-based RSUs

During 2010 and 2009, the Company granted 550,000 and 351,625 RSUs, respectively, which contain vesting triggers based upon the Company's achievement of certain adjusted EBITDA 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 RSUs 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.

The fair value of nonvested performance-based RSUs is determined based on the closing price of the Company's Class A Common Stock on the grant dates. As of December 31, 2011 and 2010, the weighted-average grant date fair values of nonvested performance-based RSUs were \$0.9 million and \$6.3 million, respectively. As of December 31, 2011, there was \$0.4 million of total unrecognized compensation cost related to nonvested performance-based RSUs to be recognized over a weighted-average period of just under one year.

A summary of the performance-based RSUs issued under the Stock Plan that have not vested as of December 31, 2011 and changes during 2011 is as follows:

<u>(in thousands, except share data)</u>	<u>Shares</u>	<u>Weighted</u>	
		<u>Average Grant</u>	
		<u>Date</u>	<u>Value (1)</u>
Nonvested at December 31, 2010	720,000	\$	4.62
Vested	(170,000)		4.62
Forfeitures (2)	(341,500)		4.62
Nonvested at December 31, 2011	<u>208,500</u>	<u>\$</u>	<u>4.62</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 2010 and 2009 awards.

(2) Includes approximately 156,000 and 120,000 performance-based RSUs forfeited in connection with the departure of certain executives in the Merchandising segment and Corporate.

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Price-based RSUs

The fair value of nonvested price-based RSUs under the Stock Plan is determined based on the closing price of the Company's Class A Common Stock on the grant dates. As of December 31, 2011, the weighted-average grant date fair values of nonvested price-based RSUs, all of which were issued during 2011, were \$6.1 million. As of December 31, 2011, there was \$0.5 million of total unrecognized compensation cost related to nonvested price-based RSUs to be recognized over a weighted-average period of approximately 1.5 years.

As of December 31, 2011, 440,000 price-based RSUs issued under the Stock Plan had not yet vested. The weighted average grant date value of these RSUs was \$3.89. (See "RSU awards to new hires in 2011" below.)

RSU awards to new hires in 2011

The new members of the Company's executive management team received 350,000 RSUs, with service period vesting triggers, of which approximately 116,667 RSUs vest on each of the second, third, and fourth anniversaries of their employment start dates. Non-cash equity compensation expense of approximately \$0.2 million was recorded during the year ended December 31, 2011 related to these awards. The Company measured the fair value of these service period-based awards as of the grant date and will recognize this fair value over the remaining service periods of the awards. As of December 31, 2011, there was \$1.3 million of total unrecognized compensation cost related to these RSUs to be recognized over a period of 3.9 years.

The Company also made RSU awards to these executives which include price-based vesting triggers. The price-based RSUs consist of the contingent right to receive an aggregate of 440,000 shares of Class A Common Stock, of which 50,000 RSUs will vest at such time as the trailing average has been at least \$6, an additional 110,000 RSUs will vest at such time as such trailing average has been at least \$8, an additional 110,000 RSUs will vest at such time as such trailing average has been at least \$10, an additional 110,000 RSUs will vest at such time as such trailing average has been at least \$12, and the final 60,000 RSUs will vest at such time as the trailing average has been at least \$14. Non-cash equity compensation expense of approximately \$0.6 million was recorded during the year ended December 31, 2011 related to these price-based awards. The Company measured the fair value of these price-based awards as of the dates of issuance using the Monte Carlo Simulation method, which fair value is recognized over the expected service period of the awards. As of December 31, 2011, there was \$0.5 million of total unrecognized compensation cost related to these price-based RSUs to be recognized over the expected service period listed below. The following table summarizes the assumptions used in the Monte Carlo Simulation method:

Risk-free interest rate	0.37 - 1.17%
Dividend	Zero
Expected volatility	67.83% - 70.20%
Expected service period	0.42 - 1.94 years
Estimated value of price-based RSUs	\$0.87 - \$4.43

Non-Employee Equity Compensation

On July 26, 2011, the Company and Charles A. Koppelman, the Executive Chairman of the Company, entered into an amended and restated employment agreement which amended Mr. Koppelman's employment term to extend from July 26, 2011 through the transition date, which was the earlier of December 31, 2011 and the date on which the Company's President and Chief Operating Officer began to report directly to the Board. The amended and restated employment agreement further provided that upon expiration of the employment term all outstanding equity awards held by Mr. Koppelman would vest and/or become exercisable, with the exception of 200,000 performance shares if such shares had not already vested. Additionally, the period for exercising any vested stock options held by Mr. Koppelman was extended to the later of one year from the employment termination date or one year from the date of termination of Mr. Koppelman's service as a director of the

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Company, but in no event beyond the remaining term of the options. On July 26, 2011, the Company and Mr. Koppelman also entered into a services agreement, which provided that, commencing on the transition date, Mr. Koppelman would continue to serve as a member of the Board and that he would carry out other duties and responsibilities as assigned to him by the Board in a non-employee capacity. On September 15, 2011, the Company's President and Chief Operating Officer began reporting to the Board directly. Accordingly, Mr. Koppelman's employment with the Company terminated and the services agreement became effective. In connection with these agreements, Mr. Koppelman received cash severance payments of approximately \$1.5 million and vested in all outstanding equity awards with the exception of 200,000 performance-based shares, which were forfeited. Mr. Koppelman also became entitled to receive Board fees on the same terms as apply to independent members of the Board, including an initial grant of RSUs equivalent to an equal number of shares of Class A Common Stock having a value of \$50,000 on the transition date. Accordingly, Mr. Koppelman received 15,151 service-period based RSUs which vest 100% in September 2012. The vesting and forfeiture of Mr. Koppelman's equity awards in connection with his employment agreement are reflected in the tables presented previously in this Note 9. Additionally, Mr. Koppelman received price-based RSUs which consist of the contingent right to receive 100,000 shares of Class A Common Stock, of which 50,000 RSUs will vest at such time as the trailing average closing price of the Class A Common Stock has been at least \$6, and an additional 50,000 RSUs will vest at such time as such trailing average has been at least \$8. To the extent vested, the RSUs will settle on December 31, 2012 or, if earlier, Mr. Koppelman's termination of service as a Board member. Non-cash equity compensation expense of approximately \$44,500 was recorded during the year ended December 31, 2011 related to these price-based awards. The Company measured the fair value of these price-based awards as of each reporting period using the Monte Carlo Simulation method, which fair value is recognized over the expected service period of the awards. As of December 31, 2011, there was \$0.2 million of total unrecognized compensation cost related to these price-based RSUs to be recognized over the expected service period listed below. The following table summarizes the assumptions used in the Monte Carlo Simulation method:

Risk-free interest rate	0.12%
Expected volatility	67.38%
Expected service period	0.37 - 0.57 years
Dividend	Zero
Estimated value of price-based RSUs	\$1.61 - \$2.64

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, 2011. This warrant expires in March 2012.

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 management's judgment about the future

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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 \$83.8 million against certain deferred tax assets as of December 31, 2011. In addition, the Company has recorded a net deferred tax liability of \$5.8 million which is attributable to differences between the financial statement carrying amounts of current and prior year 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.

The (provision)/benefit for income taxes consist of the following for 2011, 2010, and 2009:

<u>(in thousands)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Income Tax (Expense)/Benefit			
Federal	\$ —	\$ —	\$ (40)
State and local	29	(236)	(207)
Foreign	(262)	(154)	(132)
Total current income tax (expense)/benefit	<u>(233)</u>	<u>(390)</u>	<u>(379)</u>
Deferred Income Tax (Expense)			
Federal	(1,149)	(1,133)	(1,112)
State and local	(198)	(194)	(235)
Total deferred income tax (expense)	<u>(1,347)</u>	<u>(1,327)</u>	<u>(1,347)</u>
Income tax provision from continuing operations	<u>\$ (1,580)</u>	<u>\$ (1,717)</u>	<u>\$ (1,726)</u>

A reconciliation of the federal income tax provision from continuing operations at the statutory rate to the effective rate for 2011, 2010, and 2009 is as follows:

<u>(in thousands)</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Computed tax benefit at the federal statutory rate of 35%	\$ 4,879	\$ 2,757	\$ 4,499
State income taxes, net of federal benefit	(50)	(130)	(99)
Non-deductible compensation	(30)	(532)	(1,414)
Non-deductible expense	(132)	(156)	(153)
Tax on foreign income	(262)	(154)	(132)
Valuation allowance	(6,090)	(3,681)	(4,332)
Other	105	179	(95)
Provision for income taxes	<u>\$ (1,580)</u>	<u>\$ (1,717)</u>	<u>\$ (1,726)</u>
Effective tax rate	<u>11.3%</u>	<u>21.8%</u>	<u>13.4%</u>

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Significant components of the Company's deferred tax assets and liabilities as of December 31, 2011 and 2010 were as follows:

(in thousands)	2011	2010
Deferred Tax Assets		
Provision for doubtful accounts	\$ 955	\$ 917
Accrued rent	1,688	1,504
Reserve for newsstand returns	52	272
Accrued compensation	9,620	8,322
Deferred royalty revenue	131	275
NOL/credit carryforwards	56,777	51,736
Depreciation	5,778	5,889
Amortization of intangible assets	8,987	7,748
Other	482	1,108
Total deferred tax assets	84,470	77,771
Deferred Tax Liabilities		
Prepaid expenses	(624)	(808)
Amortization of intangible assets	(5,874)	(4,527)
Total deferred tax liabilities	(6,498)	(5,335)
Valuation allowance	(83,846)	(76,963)
Net Deferred Tax Liability	\$ (5,874)	\$ (4,527)

At December 31, 2011, the Company had aggregate federal net operating loss carryforwards of \$118.8 million (before-tax), which will be available to reduce future taxable income through 2031, with the majority expiring in years 2024 and 2025. The Company had federal and state tax credit carryforwards of \$2.9 million which begin to expire in 2014. To the extent 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, 2011, the Company had an ASC 740 liability balance of \$72,000. Of this amount, \$50,000 represented unrecognized tax benefits, which if recognized at some point in the future would favorably impact the effective tax rate, and \$22,000 is interest. The Company treats interest and penalties due to a taxing authority on unrecognized tax positions as interest and penalty expense. As of December 31, 2011 and December 31, 2010, the Company recorded \$22,000 and \$82,000 of accrued interest and penalties in the consolidated balance sheets. Following is a reconciliation of the Company's total gross unrecognized tax benefits for 2011 and 2010.

(in thousands)	2011	2010
Gross balance at January 1	\$ 213	\$ 131
Additions based on tax positions related to the current year	—	—
Additions for tax positions of prior years	16	82
Reductions for tax positions of prior years	—	—
Settlements	(179)	—
Reductions due to lapse of applicable statute of limitations	—	—
Gross balance at December 31	50	213
Interest and penalties	22	82
Balance including interest and penalties at December 31	\$ 72	\$ 295

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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 does not anticipate that the liability will change significantly over the next 12 months.

11. 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 was otherwise 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; and the remainder of which was paid on September 15, 2010 as originally scheduled. The \$2.0 million annual fee for 2011 was paid on September 15, 2011.

MSRE is responsible, at its expense, to maintain and landscape 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 must reimburse MSRE for up to \$0.1 million of approved and documented household expenses. In each of the years ended December 31, 2011 and 2010, 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 2011, reimbursements for these costs were insignificant. For 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. Due to uncertainty as to 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 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 \$0.3 million 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 (the "2009 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 2009 Employment Agreement expires March 31, 2012. The Company expects to enter into an extension of Ms. Stewart's employment agreement prior

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to its expiration. During the term of the 2009 Employment 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. Separately, Ms. Stewart's compensation includes a portion of personnel costs paid by the Company for individuals performing work on her behalf.

For discussion of agreements with Charles A. Koppelman, the Company's Executive Chairman, see Note 9, *Employee and Non-Employee Benefit and Compensation Plans*, specifically under *Non-Employee Equity Compensation*.

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 \$0.3 million, \$0.4 million and \$0.4 million in 2011, 2010 and 2009, respectively. The Company has also employed certain other members of Martha Stewart's and Charles Koppelman's family. Aggregate compensation for these employees was \$0.7 million, \$0.7 million and \$0.6 million in 2011, 2010 and 2009, respectively.

Prior to the sale of its interest in WeddingWire and recording the other-than-temporary loss on its investment in pingg, the Company had determined that these cost-based investments represented interests in VIEs. See Note 2, *Summary of Significant Accounting Policies*, specifically under *Investments in other non-current assets*, for further discussion. The Company derived digital advertising revenues from these VIEs, a portion of which were payable to the VIEs. For 2011, total revenues and payables from these investments were \$0.1 million and \$0.2 million, respectively. For 2010, total revenues and payables from these investments were \$0.5 million and \$0.2 million, respectively.

For the years ended December 31, 2011, 2010 and 2009, respectively, the Company made charitable contributions of \$30,000, \$20,000, and \$40,000 to a foundation with which Martha Stewart is affiliated.

12. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office facilities, filming locations, and equipment under operating lease agreements. The Company expects to vacate its television production facilities at 221 West 26th Street and its executive and administrative office for television production at 226 West 26th Street at the end of the second quarter of 2012. Leases for the Company's other offices and facilities expire between 2012 and 2018, and some of these leases are subject to the Company's renewal. Total rent expense charged to operations for all such leases, inclusive of the Company's television production facilities and television administrative offices, was approximately \$13.5 million, \$14.0 million, and \$15.2 million for the years ended December 31, 2011, 2010, and 2009, respectively, net of sublease income of \$1.3 million, \$1.3 million and \$0.7 million in 2011, 2010 and 2009, respectively. 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.

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The following is a schedule of future minimum payments under operating leases at December 31, 2011. The table includes total minimum lease payment commitments which include rent and other charges:

(in thousands)	Operating		Sublease		Net Operating	
		Lease Payments		Income		Lease Payments
2012	\$	12,476	\$	1,065	\$	11,411
2013		9,113		401		8,712
2014		7,941		414		7,527
2015		8,147		426		7,721
2016		7,918		439		7,479
Thereafter		8,838		—		8,838
Total	\$	54,433	\$	2,745	\$	51,688

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

Legal Matters

On January 23, 2012, Macy's Inc. and Macy's Merchandising Group, Inc. (together, the "Macy's plaintiffs") filed a lawsuit against the Company in the Supreme Court of the State of New York, County of New York titled Macy's, Inc. and Macy's Merchandising Group, Inc. v. Martha Stewart Living Omnimedia, Inc. In such lawsuit, the Macy's plaintiffs claim that the Company's planned activities under its commercial agreement with J.C. Penney Corporation, Inc. materially breach the agreement between the Company and Macy's Merchandising Group, Inc. dated April 3, 2006 (the "Macy's Agreement"). The Macy's plaintiffs seek a declaratory judgment, preliminary and permanent injunctive relief, and incidental and other damages. The Macy's plaintiffs initially filed a motion for a preliminary injunction and subsequently withdrew the motion without prejudice. On February 10, 2012, the Company filed an answer to the Macy's plaintiffs' original complaint and asserted three counterclaims against the Macy's plaintiffs, alleging that Macy's, Inc. and Macy's Merchandising Group, Inc. had breached the Macy's Agreement by, among other things, failing to maximize net sales. The Macy's plaintiffs have denied the allegations of the counterclaims. The Company believes that it has meritorious defenses to the claims made by the Macy's plaintiffs, and intends to vigorously defend such claims. If the lawsuit against the Company is successful and the Company is enjoined, some of the future benefits the Company anticipates receiving from its relationship with J. C. Penney Corporation, Inc. could be reduced.

The Company is a party to other 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

See Note 7, *Credit Facilities*, for discussion of the Company's line of credit with Bank of America.

13. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(in thousands, including per share data)

Year ended December 31, 2011	First	Second	Third	Fourth	Total
	Quarter	Quarter	Quarter	Quarter	
Revenues	\$ 52,675	\$ 54,860	\$ 52,204	\$ 61,694	\$ 221,433
Operating (loss) / income	(6,776)	(2,486)	(9,294)	(38)	(18,594)
Net (loss) / income	\$ (7,077)	\$ (2,938)	\$ (9,701)	\$ 4,197	\$ (15,519)
(Loss)/earnings per share—basic and diluted	\$ (0.13)	\$ (0.05)	\$ (0.18)	\$ 0.07	\$ (0.28)
Weighted average common shares outstanding					
Basic	54,716	54,766	54,990	59,015	55,881
Diluted	54,716	54,766	54,990	59,606	55,881

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	First	Second	Third	Fourth	
Year ended December 31, 2010	Quarter	Quarter	Quarter	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

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.

Fourth Quarter 2011 Items:

Results include an approximate \$1.3 million non-cash impairment charge related to a previously acquired television content library, a gain on sale of a cost-based investment of approximately \$7.6 million, and other-than-temporary loss charges on cost-based investments of approximately \$2.7 million.

14. INDUSTRY SEGMENTS

The Company is an integrated media and merchandising company providing consumers with inspiring lifestyle content and programming, and well-designed, high-quality products. The Company's business segments are Publishing, Broadcasting and Merchandising.

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, www.marthastewart.com. The Broadcasting segment primarily consists of the Company's television production operations and its satellite radio operations. Seasons 1 through 5 of *The Martha Stewart Show* aired in syndication over a twelve-month period from mid-September 2005 through mid-September 2010. Season 6 of *The Martha Stewart Show* aired on Hallmark Channel also over a 12-month period beginning and ending in the middle of September, with season 7 of *The Martha Stewart Show* airing on Hallmark Channel through September 2012. The Merchandising segment consists of the Company's operations related to the design of merchandise and related promotional and packaging materials that are licensed to and distributed by its retail and manufacturing partners.

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The accounting policies for the Company's business segments are the same as those described in Note 2, *Summary of Significant Accounting Policies*. Segment information for 2011, 2010, and 2009 is as follows:

(in thousands)	Publishing	Broadcasting	Merchandising	Corporate	Consolidated
2011					
Revenues	\$ 140,857	\$ 31,962	\$ 48,614	\$ —	\$ 221,433
Non-cash equity compensation	(682)	(67)	(224)	(4,523)	(5,496)
Depreciation and amortization	(774)	(470)	(32)	(2,702)	(3,978)
Restructuring charges	(828)	(600)	(13)	(3,675)	(5,116)
Operating income/(loss)	(6,464)	(4,740)	29,972	(37,362)	(18,594)
Total assets	83,769	28,352	81,199	22,800	216,120
Capital expenditures	1,221	32	7	1,619	2,879
2010					
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
2009					
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

15. RESTRUCTURING CHARGES

The Company incurred approximately \$5.1 million in restructuring charges during 2011. Restructuring charges include employee severance and other employee-related termination costs, as well as certain consulting and recruiting costs. Included in the \$5.1 million restructuring charge is an approximate \$0.5 million reversal of non-cash equity compensation expense related to certain employee departures.

16. 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 \$9.8 million, \$6.5 million and \$10.8 million in 2011, 2010 and 2009, 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 11% for 2009.

Advertising expense, including subscription acquisition costs, was \$15.3 million, \$14.3 million, and \$14.8 million for 2011, 2010, and 2009, respectively.

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

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Interest paid in 2011, 2010, and 2009 was \$0.3 million, \$0.5 million, and \$0.5 million, respectively, and was predominantly related to the Company's loan with Bank of America that it paid off in December 2011.

Income taxes paid in 2011, 2010, and 2009 were \$0.6 million, \$0.5 million, and \$0.3 million, respectively.

17. SUBSEQUENT EVENTS

Line of credit

During February 2012, the Company increased its line of credit with Bank of America to \$25.0 million, incorporating the previous \$5.0 million line, which proceeds are available for investment opportunities, working capital, and the issuance of letters of credit. See Note 7, *Credit Facilities*, for further discussion of the Company's line of credit with Bank of America. The interest rate on outstanding amounts is equal to a floating rate of 1-month LIBOR Daily Floating Rate plus 1.85%. The unused commitment fee is equal to 0.25%. The line of credit terms require the Company to be in compliance with certain financial and other covenants. A summary of the most significant financial covenants is as follows:

Financial Covenants

Tangible Net Worth	At least \$40.0 million
Current Ratio	At least 1.75 to 1.0
Unencumbered liquid assets	Equal to or greater than outstanding principal balance plus accrued interest

The loan agreement also contains a variety of other customary affirmative and negative covenants. The loan agreement expires February 14, 2013 and any then outstanding amounts borrowed under the agreement are then due and payable.

Legal Matters

See Note 12, *Commitments and Contingencies*, specifically under *Legal Matters*, for discussion of litigation initiated subsequent to December 31, 2011.

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MARTHA STEWART LIVING OMNIMEDIA, INC.
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS

(in thousands)

Description	Balance, Beginning of Year	Additions Charged to Revenues, Costs and Expenses	Additions/ (Deductions) Charged to Balance Sheet Accounts	(Deductions) Charged to Revenues, Costs and Expenses	Balance, End of Year
Allowance for doubtful accounts:					
Year ended December 31,					
2011	\$ 1,502	\$ 1,196	\$ (334)	\$ (734)	\$ 1,630
2010	1,351	773	(144)	(478)	1,502
2009	1,502	716	(131)	(736)	1,351
Reserve for audience underdelivery:					
Year ended December 31,					
2011	\$ —	\$ —	\$ —	\$ —	\$ —
2010	2,857	2,065	(3,605)	(1,317)	—
2009	1,869	2,434	(336)	(1,110)	2,857
Reserve for valuation allowance on the deferred tax asset:					
Year ended December 31,					
2011	\$ 76,963	\$ 6,883	\$ —	\$ —	\$ 83,846
2010	73,282	3,681	—	—	76,963
2009	68,003	4,332	947	—	73,282

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EXHIBIT INDEX

Exhibit Number	Exhibit Title
3.1	— Martha Stewart Living Omnimedia, Inc. Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1, as amended, file number 333-84001 (the "Registration Statement")).
3.1.1	— Certificate of Designations of the Series A Preferred Stock of Martha Stewart Living Omnimedia, Inc. (incorporated by reference to our Current Report on Form 8-K/A (file number 001-15395) filed on December 13, 2011).
3.2	— Second Amended and Restated By-Laws of Martha Stewart Living Omnimedia, Inc. (incorporated by reference to our Current Report on Form 8-K (file number 001-15395) filed on December 12, 2011).
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 (file number 001-15395) for the quarter ended September 30, 2006 (the "September 2006 10-Q")).
4.2	— Investor Rights Agreement dated as of December 6, 2011 by and between Martha Stewart Living Omnimedia, Inc. and J.C. Penney Corporation, Inc. (incorporated by reference to Exhibit 2 to the Schedule 13D (file number 001-15395) filed by J.C. Penney Company, Inc. on December 16, 2011).
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 (file number 001-15395) for the year ended December 31, 1999 (the "1999 10-K")).
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 (file number 001-15395) for the quarter ended June 30, 2000).
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 (file number 001-15395) filed on May 17, 2005 (the "May 17, 2005 8-K")).
10.2†	— 1999 Non-Employee Director Stock and Option Compensation Plan (incorporated by reference to the Registration Statement) as amended by Exhibit 10.2.1.
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 the May 17, 2005 8-K).
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 Martha Stewart (incorporated by reference to Exhibit 10.8 to the Registration Statement).
10.4†*	— Director Compensation Program
10.5.†	— Amended and Restated Employment Agreement, dated as of July 26, 2011, between Martha Stewart Living Omnimedia, Inc. and Charles A. Koppelman (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2011 ("September 2011 10-Q")), as amended by Exhibit 10.5.1.
10.5.1†	— Amendment dated as of September 15, 2011 to the Amended and Restated Employment Agreement, dated as of July 26, 2011, between Martha Stewart Living Omnimedia, Inc. and Charles A. Koppelman (incorporated by reference to Exhibit 10.2 to our September 2011 10-Q).

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
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 to the Registration Statement) as amended by Exhibits 10.6.1 and 10.6.2.
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 10.12.1 to our 1999 10-K).
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 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended March 31, 2008 ("March 2008 10-Q")).
10.7†	— Employment Agreement, dated as of September 17, 2008, between Martha Stewart Living Omnimedia, Inc. and Robin Marino (incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2008 (the "September 2008 10-Q")).
10.8†	— Letter Agreement, dated as of September 1, 2009, between Martha Stewart Living Omnimedia, Inc. and Peter Hurwitz (incorporated by reference to Exhibit 10.5 to our September 2011 10-Q).
10.9†	— 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 10.2 to our Quarterly Report on Form 10-Q (file number 001-15395) for the Quarter ended March 31, 2009 ("March 2009 10-Q")).
10.10	— 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 10.9 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended June 30, 2008, as amended by Exhibits 10.10.1 and 10.10.2).
10.10.1	— 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. dated as of June 13, 2008 (incorporated by reference to Exhibit 10.11.1 to our Annual Report on Form 10-K (file number 001-15395) for the year ended December 31, 2009 (the "2009 10-K")).
10.10.2	— 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. dated as of June 13, 2008, as amended (incorporated by reference to Exhibit 10.11.2 to the 2009 10-K).
10.11†	— Employment Agreement, dated as of March 24, 2009, between Martha Stewart Living Omnimedia, Inc. and Kelli Turner (incorporated by reference to Exhibit 10.1 to our March 2009 10-Q).
10.12†	— 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 10.1 to our Current Report on Form 8-K (file number 001-15395) filed on January 14, 2005).
10.13†	— Registration Rights Agreement between Charles A. Koppelman and Martha Stewart Living Omnimedia, Inc. dated January 24, 2005 (incorporated by reference to Exhibit 10.3 to our Current Report on Form 8-K (file number 001-15395) filed on October 21, 2005).
10.14	— Warrant Registration Rights Agreement, dated as of August 11, 2006, between Martha Stewart Living Omnimedia, Inc. and Mark Burnett (incorporated by reference to Exhibit 10.3 to our September 2006 10-Q).

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.15†	— Services Agreement, dated as of July 26, 2011, between Martha Stewart Living Omnimedia, Inc. and Charles Koppelman (incorporated by reference to Exhibit 10.3 to our September 2011 10-Q).
10.16	— 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. Lagasse, III (incorporated by reference to Exhibit 10.4 to our March 2008 10-Q).
10.17	— 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. (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2009 ("September 2009 10-Q")), as amended by Exhibits 10.17.1, 10.17.2, 10.17.3 and 10.17.4.
10.17.1	— 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. (incorporated by reference to Exhibit 10.22 to our 2009 10-K).
10.17.2	— Waiver and Amendment, 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. (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended September 30, 2010).
10.17.3	— Waiver and Amendment, dated as of March 11, 2011, 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. (incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended March 31, 2011 ("March 2011 10-Q")).
10.17.4	— Amendment, dated as of June 29, 2011, 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. (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, 2011 ("June 2011 10-Q")).
10.18	— 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. (incorporated by reference to Exhibit 10.1 to our September 2008 10-Q), as amended by Exhibits 10.18.1, 10.18.2, and 10.17.1.
10.18.1	— 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. (incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q (file number 001-15395) for the quarter ended June 30, 2009).
10.18.2	— 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, (incorporated by reference to Exhibit 10.2 to our September 2009 10-Q).
10.19	— Continuing and Unconditional Guaranty dated as of April 4, 2008 executed by Martha Stewart Living Omnimedia, Inc., MSO IP Holdings, Inc., Martha Stewart, Inc., Body and Soul Omnimedia, Inc., MSLO Productions, Inc., MSLO Productions—Home, Inc., MSLO Productions—EDF, Inc. and Flour Productions, Inc. (incorporated by reference to Exhibit 10.8 to our March 2008 10-Q), as reaffirmed by Exhibit 10.22.1.

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.19.1	— Reaffirmation of Guaranty, dated as of August 7, 2009, executed by Martha Stewart Living Omnimedia, Inc., MSO IP Holdings, Inc., Martha Stewart, Inc., Body and Soul Omnimedia, Inc., MSLO Productions, Inc. MSLO Productions Home, Inc. MSLO Productions—EDF, Inc and Flour Productions, Inc. (incorporated by reference to Exhibit 10.3 to our September 2009 10-Q).
10.20	— 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).
10.21†	— 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")).
10.22†	— 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")).
10.23†	— 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).
10.24†	— Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.1 to our March 2011 10-Q).
10.25†	— Form of Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan Restricted Stock Unit Agreement for Directors (incorporated by reference to Exhibit 10.2 to our March 2011 10-Q).
10.26†	— 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).
10.27†	— 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).
10.28†	— 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).
10.29†	— 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).
10.30†	— 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).
10.31†	— 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).

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<u>Exhibit Number</u>	<u>Exhibit Title</u>
10.32†	— 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).
10.33†	— Form of Martha Stewart Living Omnimedia, Inc. Indemnification Agreement for Directors (incorporated by reference to Exhibit 10.1 to our June 2011 10-Q).
10.34†	— Employment Agreement, dated as of May 24, 2011, between Martha Stewart Living Omnimedia, Inc. and Lisa Gersh (incorporated by reference to Exhibit 10.3 to our June 2011 10-Q).
10.35†	— Employment Agreement, dated as of September 6, 2011, between Martha Stewart Living Omnimedia, Inc. and Kenneth P. West (incorporated by reference to Exhibit 10.4 to our September 2011 10-Q).
10.36†*	— Employment Agreement, dated as of August 22, 2011, between Martha Stewart Living Omnimedia, Inc. and Daniel Taitz.
10.37	— Securities Purchase Agreement, dated as of December 6, 2011, by and between Martha Stewart Living Omnimedia, Inc. and J.C. Penney Corporation, Inc. (incorporated by reference to Exhibit 1 to the Schedule 13D (file number 001-15395) filed by J.C. Penney Company, Inc. on December 16, 2011).
10.38†	— Separation Agreement and General Release, dated as of September 13, 2011, between Martha Stewart Living Omnimedia, Inc. and Peter Hurwitz (incorporated by reference to Exhibit 10.5 to our September 2011 10-Q).
10.39*+	— JCP/MSLO Agreement, dated as of December 6, 2011, by and between J.C. Penney Corporation, Inc. and Martha Stewart Living Omnimedia, Inc., as amended by Exhibit 10.39.1.
10.39.1*	— First Amendment, dated as of January 4, 2012, to the JCP/MSLO Agreement, dated as of December 6, 2011, by and between J.C. Penney Corporation, Inc. and Martha Stewart Living Omnimedia, Inc.
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 Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS ***	XBRL Instance Document
101.SCH ***	XBRL Taxonomy Extension Schema Document
101.CAL ***	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF ***	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB ***	XBRL Taxonomy Extension Label Linkbase Document
101.PRE ***	XBRL Taxonomy Extension Presentation Linkbase Document

† Indicates management contracts and compensatory plans.

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- + Indicates that confidential treatment has been requested as to certain portions of this exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.
- * 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.
- *** In accordance with Rule 406T of Regulation S-T, these XBRL (eXtensible Business Reporting Language) documents are furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

Martha Stewart Living Omnimedia, Inc.

Director Compensation Program

Equity Grants

Each non-employee Director, upon appointment or election/re-election to the Board, receives a grant of restricted stock units ("RSUs") in respect of Martha Stewart Living Omnimedia, Inc. Class A Common Stock having an aggregate market value of \$50,000, based on the closing price on the date of issuance. Each grant is pursuant to the Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan and vests on the first anniversary of the grant.

Annual Retainers¹

Each non-employee Director is paid an annual retainer of \$40,000, with directors having the right to elect to receive up to 100% of the retainer in the form of Martha Stewart Living Omnimedia, Inc. Class A Common Stock.

Each non-employee Director that serves in any of the following capacities is paid an annual retainer in the amounts set forth below.

<u>Position</u>	<u>Annual Retainer</u>
Chairperson of the Board of Directors	\$ 20,000
Lead Director	\$ 20,000
Chairperson of the Audit Committee	\$ 20,000
Chairperson of the Compensation Committee	\$ 20,000
Chairperson of the Governance and Nominating Committee	\$ 10,000
Chairperson of the Finance Committee	\$ 10,000

Meeting Fees¹

Each non-employee Directors is paid \$1,500 for each Board or Committee Meeting in which the Director participates in person and \$1,000 for each Board or Committee meeting in which the Director participates telephonically.

Expenses and Indemnification

Each Director is entitled to reimbursement of reasonable expenses incurred in connection with participation in our board and committee meetings.

Each Director is also entitled to indemnification pursuant to the terms of a customary form of Indemnification Agreement.

¹ The directors designated by the holder of Martha Stewart Living Omnimedia, Inc. Series A Preferred Stock have waived their right to receive annual retainers or meeting fees in connection with their service on the Board of Directors.

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (this "Agreement"), dated as of August 22, 2011 (the "Effective Date"), is made by and between Martha Stewart Living Omnimedia, Inc., a Delaware corporation (the "Company"), and Daniel M. Taitz (the "Executive").

WHEREAS, the Company desires to employ the Executive, and the Executive is willing to be so employed, in each case on the terms and conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants contained herein, the sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Employment Term. Subject to the provisions of Section 7 of this Agreement, the Company hereby agrees to employ the Executive hereunder, and the Executive hereby agrees to be employed by the Company hereunder, in each case subject to the terms and conditions of this Agreement, for the period commencing on the Effective Date and ending on the third anniversary of the Effective Date (such period, or until the Executive's employment is earlier terminated pursuant to Section 7, the "Employment Term").

2. Duties.

(a) Commencing on the Effective Date, the Executive shall serve as the Executive Vice President, Chief Administrative Officer and General Counsel of the Company. The Executive shall have the duties and responsibilities customarily exercised by an individual serving in those positions in a corporation of the size and nature of the Company, including responsibility for the Company's legal affairs, business affairs, business development, general administrative and human resources areas. The Executive shall report to the President and Chief Operating Officer of the Company or to such Company executive of equal or higher seniority. The Executive shall also serve the Board of Directors of the Company (the "Board") with respect to Company legal issues (such as Securities and Exchange Commission matters) and strategic matters or initiatives, as the Board may request.

(b) During the Employment Term, the Executive shall use his best energies and abilities in the performance of his duties, services and responsibilities for the Company, shall comply with the Company's policies and procedures and shall devote substantially all of his business time and attention to the businesses of the Company and its subsidiaries and affiliates and shall not engage in any activity inconsistent with the foregoing, whether or not such activity shall be engaged in for pecuniary profit, unless approved by the Board in writing; provided, however, that, to the extent such activities do not violate, or substantially interfere with his performance of his duties, services and responsibilities under this Agreement, the Executive shall be permitted to manage his personal, financial and legal affairs and serve on civic or charitable boards and committees of such boards. During the Employment Term, the Executive's principal location of employment shall be at the Company's executive offices in New York City, New York, except for reasonable and necessary business travel on behalf of the Company and its subsidiaries and affiliates.

(c) Upon any termination of the Executive's employment with the Company, the Executive shall be deemed to have resigned from all other positions he then holds as an employee or director or other independent contractor of the Company or any of its subsidiaries or affiliates, unless otherwise agreed by the Company and the Executive. For purposes of determining the timing of (but not eligibility for) amounts payable upon "termination of employment," "Date of Termination" or "separation from service" under this Agreement, such terms shall mean, to the extent required under Section 409A ("Section 409A") of the Internal Revenue Code of 1986, as amended (the "Code"), the Executive's "separation from service" as defined in Section 409A and the applicable regulations thereunder.

3. Base Salary; Bonus.

(a) During the Employment Term, in consideration of the performance by the Executive of the Executive's obligations during the Employment Term (including any service in any position with any subsidiary or affiliate of the Company), the Company shall pay the Executive a base salary (the "Base Salary") at an annual rate of \$450,000. The Executive's Base Salary shall be subject to increase but not decrease in the discretion of the Compensation Committee of the Board, and shall be payable in accordance with the normal payroll practices of the Company in effect from time to time, but not less frequently than monthly.

(b) During the Employment Term, in addition to the payments of the Base Salary set forth above, the Executive shall be eligible to receive a performance-based target bonus, as set forth below: In respect of each calendar year commencing on or after January 1, 2012 during which the Employment Term is in effect, the Executive shall be eligible to receive a performance-based target bonus of 75% of Base Salary ("Target Amount"), with a minimum of 0% and a maximum of 150% of Target Amount, based on achievement of goals established with respect to each calendar year by the Compensation Committee of the Board after reasonable consultation with the Executive. In respect of the portion of the calendar year commencing on the Effective Date and ending December 31, 2011, the Executive shall be eligible to receive a performance-based target bonus in an amount equal to: (X) if the Company's EBITDA for the entire 2011 calendar year (determined without regard to any one-time corporate restructuring charges) equals the target EBITDA goal for such entire 2011 calendar year (as established by the Compensation Committee of the Board), 75% of Base Salary multiplied by a fraction, the numerator of which is the number of days from the Effective Date to the end of the 2011 calendar year and the denominator of which is 365, (Y) if the Company's EBITDA for the entire 2011 calendar year (determined without regard to any one-time corporate restructuring charges) is either less than or more than the target EBITDA goal for such entire 2011 calendar year (as established by the Compensation Committee of the Board), a percentage of between 0% and 150% of Target Amount, determined by the Compensation Committee in its discretion using as a reference the amount by which the EBITDA target is exceeded or insufficient, as the case may be) of Base Salary multiplied by a fraction, the numerator of which is the number of days from the Effective Date to the end of the 2011 calendar year and the denominator of which is 365; provided that the bonus for the 2011 calendar year shall not be less than \$50,000. Such bonus(es), if any, shall be paid in the same manner and concurrently with other bonuses paid to senior executives of the Company, provided the Executive continues as an active employee of the Company in good standing through the date of such payment (except as otherwise expressly provided in Section 9(a)). Notwithstanding the preceding sentence, for the calendar year ending

December 31, 2014, the Executive will be entitled to a pro-rated bonus for such year (calculated at the end of the calendar year and then pro-rated through the date of termination), provided that the applicable performance targets for such calendar year have been met (with any subjective performance factors to be evaluated and determined by the Board in good faith) and bonuses are paid generally to similarly situated executives at the Company. Such pro-rated bonus, if any, will be paid in the same manner and concurrently with other bonuses paid to senior executives of the Company. Bonus(es) under this Section 3(b) shall be paid in a lump sum no later than March 15th of the calendar year following the calendar year to which such bonus relates.

4. Benefits.

(a) During the Employment Term, the Executive shall be entitled to participate in the employee benefit plans, policies, programs and arrangements, as may be amended from time to time, that are provided generally to similarly situated employees of the Company (excluding for this purpose Martha Stewart, Charles Koppelman and Lisa Gersh) to the extent the Executive meets the eligibility requirements for any such plan, policy, program or arrangement.

(b) The Company shall reimburse the Executive for all reasonable business expenses incurred by the Executive in carrying out the Executive's duties, services and responsibilities under this Agreement during the Employment Term, including, without limitation, first class transportation. The Executive shall comply with generally applicable policies, practices and procedures of the Company with respect to reimbursement for, and submission of expense reports, receipts or similar documentation of, such expenses.

(c) For purposes of complying with Section 409A, any reimbursement of benefits provided under this Section 4 shall be subject to the following: (i) provision of such reimbursement or benefits provided during one calendar year shall not affect the amount of reimbursements or benefits provided during a subsequent calendar year; (ii) such reimbursements or benefit may not be exchanged or substituted for other forms of compensation to the Executive; and (iii) reimbursement payments must be made no later than the last day of the calendar year immediately following the calendar year in which the expense is incurred.

5. Vacations. During each calendar year of the Employment Term (pro rata for partial calendar years), the Executive shall be entitled to four weeks of paid vacation to be taken in accordance with the applicable policy of the Company.

6. Equity Compensation.

(a) On the Effective Date, the Company shall grant the Executive:

(i) 100,000 time-vested options to purchase Class A common stock of the Company, par value \$0.01 per share (the "Stock"), at an exercise price equal to the Fair Market Value of the Common Stock (as such terms are defined in the Company's Omnibus Stock and Option Compensation Plan) on the grant date (the "Time-Vested Options"), pursuant to the Stock Option Agreement attached hereto as Exhibit A (the "Stock Option Agreement"). The Stock Option Agreement shall provide that (x) 33,334 Time-Vested Options shall vest on the second anniversary of the Effective Date,

(y) 33,333 Time-Vested Options shall vest on the third anniversary of the Effective Date, and (z) 33,333 Time-Vested Options shall vest on the fourth anniversary of the Effective Date, in each case subject to the Executive remaining in continuous and active employment with the Company until such date (except as otherwise expressly provided in Section 9 of this Agreement).

(ii) 200,000 premium-priced, performance-vested options to purchase Stock (the "Performance-Vested Options") pursuant to the Performance Stock Option Agreement attached hereto as Exhibit B (the "Performance Stock Option Agreement"). The Performance Stock Option Agreement shall provide that (w) 50,000 Performance-Vested Options shall be priced at \$6 and shall vest at such time as the trailing average closing price of the Stock during any 30 consecutive trading days during the Employment Term has been at least \$6, (x) 50,000 Performance-Vested Options shall be priced at \$8 and shall vest at such time as the trailing average closing price of the Stock during any 30 consecutive trading days during the Employment Term has been at least \$8, (y) 50,000 Performance-Vested Options shall be priced at \$10 and shall vest at such time as the trailing average closing price of the Stock during any 30 consecutive trading days during the Employment Term has been at least \$10, and (z) 50,000 Performance-Vested Options shall be priced at \$12 and shall vest at such time as the trailing average closing price of the Stock during any 30 consecutive trading days during the Employment Term has been at least \$12, in each case subject to the Executive remaining in continuous and active employment with the Company until such time. Notwithstanding the foregoing, the exercise price share of such Performance-Vested Options shall be no less than the Fair Market Value per share of the Common Stock on the grant date.

(iii) 50,000 time-vested Restricted Stock Units representing the right to receive 50,000 shares of Stock (the "Time-Vested Restricted Stock Units"), pursuant to the Restricted Stock Agreement attached hereto as Exhibit C (the "Restricted Stock Agreement"). The Restricted Stock Agreement shall provide that (x) 16,667 Time-Vested Restricted Stock Units shall vest on the second anniversary of the Effective Date, (y) 16,667 Time-Vested Restricted Stock Units shall vest on the third anniversary of the Effective Date, and (z) 16,666 Time-Vested Restricted Stock Units shall vest on the fourth anniversary of the Effective Date, in each case subject to the Executive remaining in continuous and active employment with the Company until such date (except as otherwise expressly provided in Section 9 of this Agreement).

(iv) 120,000 performance-vested Restricted Stock Units representing the right to receive 120,000 shares of Stock (the "Performance-Vested Restricted Stock Units"), pursuant to the Performance Restricted Stock Agreement attached hereto as Exhibit D (the "Performance Restricted Stock Agreement"). The Performance Restricted Stock Agreement shall provide that (w) 30,000 Performance-Vested Restricted Stock Units shall vest at such time as the trailing average closing price of the Stock during any 30

consecutive trading days during the Employment Term has been at least \$8, (x) 30,000 Performance-Vested Restricted Stock Units shall vest at such time as the trailing average closing price of the Stock during any 30 consecutive trading days during the Employment Term has been at least \$10, (y) 30,000 Performance-Vested Restricted Stock Units shall vest at such time as the trailing average closing price of the Stock during any 30 consecutive trading days during the Employment Term has been at least \$12, and (z) 30,000 Performance-Vested Restricted Stock Units shall vest at such time as the trailing average closing price of the Stock during any 30 consecutive trading days during the Employment Term has been at least \$14, in each case subject to the Executive remaining in continuous and active employment with the Company until such time.

(c) On the first anniversary of the Effective Date, or as soon as practicable thereafter, the Company shall grant the Executive 30,000 time-vested Restricted Stock Units (the "Additional Time-Vested Restricted Stock Units") which shall vest in equal tranches on the second, third and fourth anniversaries of the Effective Date, in each case subject to the Executive remaining in continuous and active employment with the Company until such date (except as otherwise expressly provided in Section 9 of this Agreement) and which shall be settled and paid within 30 days of the vesting event.

7. Termination of the Employment Term.

(a) The Executive's employment with the Company and the Employment Term shall terminate upon the earliest to occur of:

- (i) the death of the Executive;
- (ii) the termination of the Executive's employment by the Company by reason of the Executive's Disability;
- (iii) the termination of the Executive's employment by the Company for Cause or without Cause;
- (iv) the termination of the Executive's employment by the Executive for Good Reason; and
- (v) the expiration of the Employment Term.

(b) For purposes of this Agreement, the following terms shall have the following meanings:

(i) "Cause" shall mean that the Company has made a good faith determination that any of the following has occurred:

(1) the continued failure by the Executive to substantially perform his material duties to the Company (other than due to mental or physical disability) after written notice specifying such failure and the manner in which the Executive may rectify such failure in the future; provided, that in the case of conduct above which is capable of being cured, the Executive shall have a period of thirty (30) days after the Executive is provided with written notice thereof in which to cure.

(2) the Executive has engaged in misconduct that has resulted in material damage to the Company's business or reputation;

(3) the Executive's conviction of, or entry of a plea of guilty or nolo contendere with respect to, (A) a crime involving moral turpitude, fraud, forgery, embezzlement or similar conduct, or (B) a felony crime;

(4) the Executive has engaged in fraud against the Company or misappropriated Company property (other than incidental property), or

(5) the Executive has materially breached this Agreement; provided, that in the case of a material breach which is capable of being cured, the Executive shall have a period of thirty (30) days after the Executive is provided with written notice thereof in which to cure.

(ii) "Change in Control" of the Company shall mean:

(1) any "person" (as such term is used in Sections 3(a)(9) and 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") or "group" (as such term is used in Section 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as such term is used in Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the Voting Stock of the Company; provided that this clause (1) shall not apply with respect to a stockholder of the Company who beneficially owns more than 50% of the Voting Stock of the Company on the Effective Date;

(2) all or substantially all of the assets or business of the Company are disposed of pursuant to a merger, consolidation or other transaction unless, immediately after such transaction, the stockholders of the Company immediately prior to the transaction own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company prior to such transaction more than 50% of the Voting Stock of the company surviving such transaction or succeeding to all or substantially all of the assets or business of the Company or the ultimate parent company of such surviving or successor company if such surviving or successor company is a subsidiary of another entity (there being excluded from the number of shares held by such stockholders, but not from the Voting Stock of the combined company, any shares received by affiliates of such other company in exchange for stock of such other company); provided that this clause (2) shall not apply if, immediately after such transaction, a stockholder of the Company who beneficially owns more than 50% of the Voting Stock of the Company on the Effective Date owns, directly or indirectly, more than 50% of the Voting Stock of the company surviving such transaction or succeeding to all or substantially all of the assets or business of the Company or the ultimate parent company of such surviving or successor company if such surviving or successor company is a subsidiary of another entity;

(3) the Company adopts any plan of liquidation providing for the distribution of all or substantially all of its assets if such plan of liquidation will result in the winding-up of the business of the Company; or

(4) the consummation of any merger, consolidation or other similar corporate transaction unless, immediately after such transaction, the stockholders of the Company immediately prior to the transaction own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company prior to such transaction more than

50% of the Voting Stock of the company surviving such transaction or its ultimate parent company if such surviving company is a subsidiary of another entity (there being excluded from the number of shares held by such stockholders, but not from the Voting Stock of the combined company, any shares received by affiliates of such other company in exchange for stock of such other company); provided that this clause (4) shall not apply if, immediately after such transaction, a stockholder of the Company who beneficially owns more than 50% of the Voting Stock of the Company on the Effective Date owns, directly or indirectly, more than 50% of the Voting Stock of the company surviving such transaction or the ultimate parent company of such surviving or successor company if such surviving company is a subsidiary of another entity.

For purposes of this definition, "the Company" shall include any entity that succeeds to all or substantially all of the business of the Company; "Voting Stock" shall mean securities of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation; and references to ownership of "more than 50% of the Voting Stock" shall mean the ownership of shares of Voting Stock that represent the right to exercise more than 50% of the votes entitled to be cast in the election of directors of a corporation.

(iii) "Disability" of the Executive shall have occurred if, as a result of the Executive's incapacity due to physical or mental illness as determined by a physician selected by the Executive, and reasonably acceptable to the Company, the Executive shall have been substantially unable to perform his duties hereunder for six consecutive months, or for an aggregate of 180 days during any period of twelve consecutive months.

(iv) "Good Reason" shall mean the occurrence, without the Executive's express prior written consent, of any one or more of the following:

(1) a material diminution by the Company in the Executive's overall authority, duties and responsibilities; provided that (x) this provision shall not include a diminution in authority, duties and responsibilities solely by virtue of the Company becoming private or being acquired and made part of a larger entity, and (y) for the avoidance of doubt, removal of any of the specific duties or responsibilities set forth in Section 2 above (e.g. removal of responsibility for the area of human resources) shall not in itself constitute a material diminution in the Executive's overall authority, duties and responsibilities (however, for the avoidance of doubt, such removal may be taken into account with other factors in order to determine whether there has been a material diminution in the Executive's overall authority, duties and responsibilities);

(2) a material breach of this Agreement by the Company;

(3) a material change to the reporting structure set forth in Section 2(a);

(4) the Company's requiring the Executive to be based at a location in excess of 35 miles from the location of the Executive's principal job location or office specified in Section 2(b), except for required travel on the Company's business to an extent substantially consistent with the Executive's position; or

(5) a material reduction by the Company of the Executive's Base Salary or performance-based target bonus percentage, as the same shall be increased from time to time,

provided that the foregoing events shall constitute Good Reason only if the Company fails to cure such event within 30 days after receipt from Executive of written notice of the event which constitutes Good Reason; and provided, further, that "Good Reason" shall cease to exist for an event on the 30th day following its occurrence unless the Executive has given the Company written notice thereof prior to such date.

8. Termination Procedures.

(a) Notice of Termination. Any termination of the Executive's employment by the Company or by the Executive during the Employment Term (other than pursuant to Sections 7(a)(i) and 7(a)(v)) shall be communicated by written Notice of Termination to the other party. For purposes of this Agreement, a "Notice of Termination" shall mean a notice indicating the specific termination provision in this Agreement relied upon and setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under that provision.

(b) Date of Termination. For purposes of this Agreement, "Date of Termination" shall mean (i) if the Executive's employment is terminated by his death, the date of his death, (ii) if the Executive's employment is terminated pursuant to Section 7(a)(ii), 30 days after the date of receipt of the Notice of Termination (provided that the Executive does not return to the substantial performance of his duties on a full-time basis during such 30-day period), (iii) if the Executive's employment is terminated pursuant to Section 7(a)(v), the date of expiration of the Employment Term, (iv) if the Executive's employment is terminated pursuant to Section 7(a)(iii), the date on which a Notice of Termination is given or any later date set forth in such Notice of Termination, and (v) if the Executive's employment is terminated pursuant to Section 7(a)(iv), 30 days after the date of the Company's receipt of written notice from the Executive of the event which constitutes Good Reason (unless the Company has cured such event within such 30 day period).

9. Termination Payments.

(a) Upon any termination of the Executive's employment, he shall be entitled to payment of any earned but unpaid portion of the Base Salary, benefits and unreimbursed business expenses, in each case with respect to the period ending on the Date of Termination. In addition, upon termination of Executive's employment by the Company without Cause or a termination by Executive with Good Reason, Executive will be entitled to a pro-rated bonus for the year of termination (calculated at the end of the fiscal year and then pro-rated through the Date of Termination), provided that the applicable performance targets have been met (with any subjective performance factors to be evaluated and determined by the Board in good faith) and bonuses are paid generally to similarly situated executives at the Company. Such payments shall be made when otherwise due in accordance with the provisions of Section 3 and Section 4 of this Agreement.

(b) (i) In addition to the payments and benefits provided in Section 9(a) and subject to the provisions of Section 9(e), if the Executive's employment is terminated (x) by the Company without Cause or (y) by the Executive for Good Reason, in either case on or prior to the six month anniversary of the Effective Date and prior to the occurrence of a Change in Control, (i) the Company shall pay the Executive, commencing within two and one-half months after the Executive's "separation from service" as defined for purposes of Section 409A, an amount equal to 6 months' Base Salary, which shall be payable in the form of salary continuation in accordance with the Company's regular payroll practices, and (ii) the Company shall provide the Executive with continued medical coverage at active-employee rates (unless doing so would violate any anti-discrimination provision or other legal requirement applicable to the Company or the Company's medical plan) until the earliest of (x) 6 months from the Date of Termination, or (y) the date on which the Executive is eligible to receive subsequent employer-provided coverage.

(ii) In addition to the payments and benefits provided in Section 9(a) and subject to the provisions of Section 9(e), if the Executive's employment is terminated (x) by the Company without Cause or (y) by the Executive for Good Reason, in either case after the six month anniversary of the Effective Date but prior to the first anniversary of the Effective Date and prior to the occurrence of a Change in Control, (i) the Company shall pay the Executive, commencing within two and one-half months after the Executive's "separation from service" as defined for purposes of Section 409A, an amount equal to 12 months' Base Salary, which shall be payable in the form of salary continuation in accordance with the Company's regular payroll practices, and (ii) the Company shall provide the Executive with continued medical coverage at active-employee rates (unless doing so would violate any anti-discrimination provision or other legal requirement applicable to the Company or the Company's medical plan) until the earliest of (x) 12 months from the Date of Termination, or (y) the date on which the Executive is eligible to receive subsequent employer-provided coverage.

(c) In addition to the payments and benefits provided in Section 9(a) and subject to the provisions of Section 9(e), if the Executive's employment is terminated (x) by the Company without Cause or (y) by the Executive for Good Reason, in either case on or after the first anniversary of the Effective Date and prior to the occurrence of a Change in Control, (i) the Company shall immediately vest the portion of the outstanding unvested Time-Vested Options, Time-Vested Restricted Stock Units and Additional Time-Vested Restricted Stock Units that would otherwise have vested within twelve months of the Date of Termination had the Executive remained in employment through such date (and any such accelerated Restricted Stock Units shall be paid within 30 days after the Executive's "separation from service" as defined for purposes of Section 409A), (ii) the Executive shall be entitled to receive from the Company, commencing within two and one-half months after the Executive's "separation from service" as defined for purposes of Section 409A, an amount equal to 12 months' Base Salary, which shall be payable in the form of salary continuation in accordance with the Company's regular payroll practices, and (iii) the Company shall provide the Executive with continued medical coverage at active-employee rates (unless doing so would violate any anti-discrimination provision or other legal requirement applicable to the Company or the Company's medical plan) until the earliest of (x) 12 months from the Date of Termination, (y) the end of the scheduled Employment Term or (z) the date on which the Executive is eligible to receive subsequent employer-provided coverage.

(d) In addition to the payments and benefits provided in Section 9(a) and subject to the provisions of Section 9(e), if the Executive's employment is terminated (x) by the Company without Cause or (y) by the Executive for Good Reason, in either case after the occurrence of a Change in Control, (i) the Company shall immediately vest the portion of the outstanding unvested Time-Vested Options, Time-Vested Restricted Stock Units and Additional Time-Vested Restricted Stock Units that would otherwise have vested within twenty-four months of the Date of Termination had the Executive remained in employment through such date (and any such accelerated Restricted Stock Units shall be paid within 30 days after the Executive's "separation from service" as defined for purposes of Section 409A), (ii) the Executive shall be entitled to receive from the Company, commencing within two and one-half months after the Executive's "separation from service" as defined for purposes of Section 409A, an amount equal to 12 months' Base Salary, which shall be payable in the form of salary continuation in accordance with the Company's regular payroll practices, and (iv) the Company shall provide the Executive with continued medical coverage at active-employee rates (unless doing so would violate any anti-discrimination provision or other legal requirement applicable to the Company or the Company's medical plan) until the earliest of (x) 12 months from the Date of Termination, (y) the end of the scheduled Employment Term or (z) the date on which the Executive is eligible to receive subsequent employer-provided coverage.

(e) Payment of the amounts in Sections 9(b), 9(c) and 9(d) is subject to, and expressly conditioned upon, (i) the Executive's execution of a general release in form satisfactory to the Company, and such release having become effective in accordance with its terms within 60 days following the Date of Termination, and (ii) the Executive's compliance with the covenants contained in Section 10.

(f) Notwithstanding any provision of this Agreement to the contrary, to the extent (i) the two and one-half month period for making a severance payment under Section 9(b)(i), 9(c)(ii) or 9(d)(ii) or (ii) the 30 day period for paying any Restricted Stock Units under Section 9(c)(i) or 9(d)(i) begins in one calendar year and ends in a subsequent calendar year, the payment will be made in the subsequent calendar year.

10. Confidential Information; Noncompetition; Nonsolicitation; Nondisparagement.

(a) Confidential Information. Except as may be required or appropriate in connection with his carrying out his duties under this Agreement, the Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or any legal process, or as is necessary in connection with any adversarial proceeding against the Company (in which case the Executive shall cooperate with the Company in obtaining a protective order at the Company's expense against disclosure by a court of competent jurisdiction), communicate, to anyone other than the Company and those designated by the Company or on behalf of the Company in the furtherance of its business or to perform his duties hereunder, any trade secrets, confidential information, knowledge or data relating to the Company, its affiliates or any businesses or investments of the Company or its affiliates, obtained by the Executive during the Executive's services to the Company that is not generally available public knowledge (other than by acts by the Executive in violation of this Agreement).

(b) Noncompetition. During the Employment Term and (unless this Agreement terminates pursuant to clause (v) of Section 7(a)) for the Restricted Period thereafter, the Executive shall not engage in or become associated with any Competitive Activity. For purposes of this Section 10(b), the "Restricted Period" means the 12 month period following the Date of Termination. For purposes of this Section 10(b), a "Competitive Activity" shall mean any business or other endeavor that engages in any country in which the Company has significant business operations to a significant degree in a business that directly competes with all or any substantial part of any of the Company's businesses of (i) producing radio, television and other video programs, (ii) designing, developing, licensing, promoting and selling merchandise through catalogs, direct marketing, Internet commerce and retail stores of the product categories in which the Company so participates using the name, likeness, image, or voice of any Company employee (without limitation, Company employees for the purposes of this Section 10(b) shall be deemed to include Martha Stewart and Emeril Lagasse) to promote or market any such product or service, (iii) the creation, publication or distribution of regular or special issues of magazines and operation of websites specifically related to the Company's business, and (iv) any other business in which the Company is engaged, or taken steps to engage, during the term of this Agreement. The Executive shall be considered to have become "associated with a Competitive Activity" if he becomes involved as an owner, employee, officer, director, independent contractor, agent, partner, advisor, or in any other capacity calling for the rendition of the Executive's personal services, with any individual, partnership, corporation or other organization that is engaged in a Competitive Activity, unless the Executive has no direct or indirect involvement in, or direct or indirect authority over, the Competitive Activity conducted by such organization; provided, however, that the Executive shall not be prohibited from (a) owning less than two percent of any publicly traded corporation, whether or not such corporation is in competition with the Company or (b) serving as a director of a corporation or other business if less than 10% of such corporation's (and its affiliates') or other business' (and its affiliates') revenues are derived from a Competitive Activity. If, at any time, the provisions of this Section 10(b) shall be determined to be invalid or unenforceable, by reason of being vague or unreasonable as to area, duration or scope of activity, this Section 10(b) shall be considered divisible and shall become and be immediately amended to only such area, duration and scope of activity as shall be determined to be reasonable and enforceable by the court or other body having jurisdiction over the matter; and the Executive agrees that this Section 10(b) as so amended shall be valid and binding as though any invalid or unenforceable provision had not been included herein.

(c) Nonsolicitation; No-Hire. During the Employment Term, and for 12 months after the Date of Termination, the Executive shall not, directly or indirectly, (1) solicit for employment or hire, other than on behalf of the Company, any person (other than any personal secretary or assistant hired to work directly for the Executive) employed by the Company or its affiliated companies as of the Date of Termination, (2) solicit for employment or hire, other than on behalf of the Company, any person known by the Executive (after reasonable inquiry) to be employed at the time by the Company or its affiliated companies as of the date of the solicitation or (3) solicit any customer or other person with a business relationship with the Company or any of its affiliated companies to terminate, curtail or otherwise limit such business relationship.

(d) Non-disparagement. During the Employment Term and thereafter, the Executive shall not, directly or indirectly, make or publish any disparaging statements (whether written or oral) regarding the Company or any of its affiliated companies or businesses, or the directors, officers, agents, principal stockholders or customers of any of them. Executive shall not author, co-author, or assist in the production or authorship of any story, book, show, script or other work about the Company or Martha Stewart without the Company's prior review of such work and the Company's written consent as to the production and content thereof.

(e) Covenants Reasonable. The parties acknowledge that the restrictions contained in this Section 10 are a reasonable and necessary protection of the immediate interests of the Company, and any violation of these restrictions could cause substantial injury to the Company, and that the Company would not have entered into this Employment Agreement without receiving the additional consideration offered by the Executive in binding himself to each of these restrictions.

(f) Injunctive Relief. In the event of a breach or threatened breach of this Section 10, each party agrees that the non-breaching party shall be entitled to seek injunctive relief, either from the arbitrator or a court of appropriate jurisdiction, at the election of the party seeking the relief, to remedy any such breach or threatened breach, the parties acknowledging that damages would be inadequate and insufficient. The parties waive any requirement to post a bond in connection with any such proceeding. The right to apply for an injunction shall not be construed as prohibiting either party from pursuing any other available remedies for such breach or threatened breach.

11. Indemnification. At all times the Executive will be entitled to indemnification in accordance with the provisions of the Company's charter and by-laws as then in effect.

12. Dispute Resolution. Subject to the provisions of Section 10(f), any controversy or claim arising out of or relating to this Agreement or the making, interpretation or breach thereof shall be resolved by arbitration administered by the American Arbitration Association in accordance with its Commercial Arbitration Rules (the "Rules"). The arbitration shall be conducted in New York City, New York by a single arbitrator appointed in accordance with the Rules, and judgment upon the award rendered by the arbitrator may be entered in and enforced by any court having jurisdiction thereof. The powers of the arbitrator shall include, but not be limited to, the awarding of injunctive relief and specific performance. The parties to any arbitration proceeding will treat all filings and evidence in the arbitration as confidential and shall not disclose either to any third party except as may be required by law or legal process, or as may be necessary in connection with any legal proceeding related to the award of the arbitrator.

13. Representations.

(a) The Executive represents and warrants that (i) he is not subject to any contract, arrangement, policy or understanding, or to any statute, governmental rule or regulation, including without limitation any non-competition agreement, that in any way limits his ability to enter into and fully perform his obligations under this Agreement and (ii) he is not otherwise unable to enter into and fully perform his obligations under this Agreement.

(b) The Company represents and warrants to the Executive that (i) this Agreement and each of the Stock Option Agreement, the Performance Stock Option Agreement, the Restricted Stock Agreement and the Performance Stock Agreement have been duly authorized,

executed and delivered by the Company and each constitutes a valid and binding obligation of the Company, and (ii) subject to the accuracy of the Executive's representation in Section 13(a), the employment of the Executive on the terms and conditions contained in this Agreement will not conflict with or result in a breach or violation of the terms of any contract or other obligation or instrument to which the Company is a party or by which it is bound or any statute, law, rule, regulation, judgment, order or decree applicable to the Company.

14. Successors; Binding Agreement.

(a) Company's Successors. No rights or obligations of the Company under this Agreement may be assigned or transferred without the consent of the Executive except in connection with a sale or transfer of the capital stock, business and/or assets of the Company by merger, purchase or otherwise or in connection with any corporate restructuring of the Company for which no consent of the Executive will be required.

(b) Executive's Successors. No rights or obligations of the Executive under this Agreement may be assigned or transferred by the Executive other than his rights to payments or benefits hereunder, which may be transferred only by will or the laws of descent and distribution. Upon the Executive's death, this Agreement and all rights of the Executive hereunder shall inure to the benefit of and be enforceable by the Executive's beneficiary or beneficiaries, personal or legal representatives, or estate, to the extent any such person succeeds to the Executive's interests under this Agreement. If the Executive should die following his Date of Termination while any amounts would still be payable to him hereunder if he had continued to live, all such amounts unless otherwise provided herein shall be paid in accordance with the terms of this Agreement to such person or persons so appointed in writing by the Executive, or otherwise to his legal representatives or estate.

15. Notice. For the purposes of this Agreement, notices, demands and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered either personally or by United States certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

If to the Executive, at his residence address most recently filed with the Company;

If to the Company:

Martha Stewart Living Omnimedia, Inc.

601 West 26th Street

New York, NY 10001

Attention: President

Tel: (212) 827-8362

Fax: (212) 827-8188;

a copy to:

Lawrence Shire, Esq.

Eric Sacks, Esq.

Grubman Indursky & Shire, P.C.

Carnegie Hall Tower
152 West 57th Street
New York, NY 10019
Tel: (212) 554-0400
Fax: (212) 554-0444

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

16. Modification; Waiver. No provision of this Agreement may be amended, modified, or waived unless such amendment or modification is agreed to in writing and signed by the Executive and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. No waiver by either party hereto at any time of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

17. Section 409A.

(a) The intent of the parties is that payments and benefits under this Agreement either comply with or are exempt from Section 409A and, accordingly, to the maximum extent permitted, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A. The Executive is hereby advised to seek independent advice from his tax advisor(s) with respect to any payments or benefits under this Agreement. Notwithstanding the foregoing, the Company does not guarantee the tax treatment of any payments or benefits provided under this Agreement under Section 409A or under any other federal, state, local or foreign tax laws and regulations.

(b) If the Executive is deemed on the date of his "separation from service" with the Company to be a "specified employee", each within the meaning of Section 409A(a)(2)(B) of the Code, then with regard to any payment or the providing of any benefit under this Agreement, and any other payment or the provision of any other benefit that is required to be delayed in compliance with Section 409A(a)(2)(B), such payment or benefit shall not be made or provided prior to the earlier of (i) the expiration of the six-month period measured from the date of the Executive's separation from service, or (ii) the date of the Executive's death, if and to the extent such six-month delay is required to comply with Section 409A(a)(2)(B). In such event, on or promptly after the first business day following the six-month delay period, all payments delayed pursuant to this Section 17 (whether they would have otherwise been payable in a single sum or in installments in the absence of such delay) shall be paid or reimbursed to the Executive in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

(c) If under this Agreement, an amount is to be paid in installments, each installment shall be treated as a separate payment for purposes of Treasury Regulations Section 1.409A2(b)(2)(iii).

18. Validity. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

19. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

20. Entire Agreement. This Agreement, together with the Stock Option Agreement, the Performance Stock Option Agreement, the Restricted Stock Agreement, and the Performance Restricted Stock Agreement, set forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersede all prior agreements, promises, covenants, arrangements, communications, representations and warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of such subject matter.

21. Withholding. All payments hereunder shall be subject to any required withholding of Federal, state and local taxes pursuant to any applicable law or regulation.

22. Section Headings; Absence of Presumption.

(a) The section headings in this Agreement are for convenience of reference only, and they form no part of this Agreement and shall not affect its interpretation.

(b) With regard to each and every term and condition of this Agreement, the parties hereto understand and agree that the same have been mutually negotiated, prepared and drafted, and if at any time the parties hereto desire or are required to interpret or construe any such term or condition, no consideration will be given to the issue of which party hereto actually prepared, drafted or requested any term or condition of this Agreement.

23. Governing Law; Survival. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles. Each of the parties agrees that any action for injunctive relief under Section 10(f) and any action to enforce an arbitration award under Section 12 (a "Proceeding") shall be brought only in the courts of the State of New York sitting in the County of New York or the United States District Court for the Southern District of New York and the appellate courts having jurisdiction of appeals in such courts. In that context, each of the parties irrevocably and unconditionally: (a) submits for itself/himself in any such Proceeding, or for recognition and enforcement of any judgment in respect thereof, to the exclusive jurisdiction of the courts of the State of New York sitting in the County of New York, the court of the United States of America for the Southern District of New York, and appellate courts having jurisdiction of appeals from any of the foregoing, and agrees that all claims in respect of any such Proceeding shall be heard and determined in such New York State court or, to the extent permitted by law, in such Federal court; (b) consents that any such Proceeding may and shall be brought in such courts and waives any objection that it/he may now or thereafter have to the venue or jurisdiction of any such Proceeding in any such court or that such Proceeding was brought in an inconvenient court and agrees not to plead or claim the same; (c) waives all right to trial by jury in any Proceeding (whether based on contract, tort or otherwise) arising out of or relating to this Agreement, or its/his performance under or the enforcement of this Agreement; (d) agrees that

service of process in any such Proceeding may be effected by mailing a copy of such process by registered or certified mail (or any substantially similar form of mail), postage prepaid, to such party at its/his address as provided in Section 15; and (e) agrees that nothing in this Agreement shall affect the right to effect service of process in any other manner permitted by the laws of the State of New York. The provisions of Section 10 that are intended to survive the Employment Term shall remain in full force and effect for their respective periods of duration; it being understood that the provisions of Section 10(d) shall be perpetual.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

MARTHA STEWART LIVING OMNIMEDIA, INC.

By: /s/ Lisa Gersh
Name: Lisa Gersh
Title: President
/s/ Daniel Taitz
Daniel M. Taitz

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

NOTICE OF STOCK OPTION GRANT

Optionee:

Daniel M. Taitz ("you" or "Executive")

You have been granted an option (the "Option") to purchase Common Stock of Martha Stewart Living Omnimedia, Inc. (the "Company"), as follows:

Date of Grant: August 22, 2011
Exercise Price _____
Per Share: _____
Total Number of Shares: _____
Total Exercise Price: _____
Type of Option: _____ Incentive Stock Option
 x _____ Nonstatutory Stock Option

Expiration Date: August 21, 2021

Vesting Schedule: So long as your Service continues, the Shares underlying this Option shall vest and become exercisable in accordance with the following schedule:

33,334 of the Shares subject to this Option shall vest on August 22, 2013;
33,333 of the Shares subject to this Option shall vest on August 22, 2014; and
33,333 of the Shares subject to this Option shall vest on August 22, 2015.

Notwithstanding the foregoing, (i) if your employment is terminated by the Company without Cause (as defined below) or by you for Good Reason (as defined below), in either case on or after August 22, 2012 and prior to the occurrence of a Change in Control (as defined below), the

Shares subject to this Option that would otherwise have vested within twelve months of the Date of Termination (as defined below) had you remained in employment through such date shall immediately vest and become immediately exercisable, and (ii) if your employment is terminated by the Company without Cause or by you for Good Reason, in either case after the occurrence of a Change in Control, the Shares subject to this Option that would otherwise have vested within twenty-four months of the Date of Termination had you remained in employment through such date shall immediately vest and become immediately exercisable.

For purposes of this Option, "Cause" shall mean that the Company has made a good faith determination that any of the following has occurred:

(1) the continued failure by the Executive to substantially perform his material duties to the Company (other than due to mental or physical disability) after written notice specifying such failure and the manner in which the Executive may rectify such failure in the future; provided, that in the case of conduct above which is capable of being cured, the Executive shall have a period of thirty (30) days after the Executive is provided with written notice thereof in which to cure;

(2) the Executive has engaged in misconduct that has resulted in material damage to the Company's business or reputation;

(3) the Executive's conviction of, or entry of a plea of guilty or nolo contendere with respect to, (A) a crime involving moral turpitude, fraud, forgery, embezzlement or similar conduct, or (B) a felony crime;

(4) the Executive has engaged in fraud against the Company or misappropriated Company property (other than incidental property); or

(5) the Executive has materially breached his employment agreement ("Employment Agreement") with the Company dated August 22, 2011 (the "Effective Date"); provided, that in the case of a material breach which is capable of being cured, the Executive shall have a period of thirty (30) days after the Executive is provided with written notice thereof in which to cure.

For purposes of this Option, "Good Reason" shall mean the occurrence, without the Executive's express prior written consent, of any one or more of the following:

(1) a material diminution by the Company in the Executive's overall authority, duties and responsibilities; provided that (x) this provision shall not include a diminution in authority, duties and responsibilities solely by virtue of the Company becoming private or being acquired and made part of a larger entity, and (y) for the avoidance of doubt, removal of any of the specific duties or responsibilities set forth in Section 2 above (e.g. removal of responsibility for the area of technology) shall not in itself constitute a material diminution in the Executive's overall authority, duties and responsibilities (however, for the avoidance of doubt, such removal may be taken into account with other factors in order to determine whether there has been a material diminution in the Executive's overall authority, duties and responsibilities);

(2) a material breach of the Employment Agreement by the Company;

(3) a material change to the reporting structure set forth in Section 2(a) of the Employment Agreement;

(4) the Company's requiring the Executive to be based at a location in excess of 35 miles from the location of the Executive's principal job location or office specified in Section 2(b), except for required travel on the Company's business to an extent substantially consistent with the Executive's position; or

(5) a material reduction by the Company of the Executive's Base Salary or performance-based target bonus percentage, as the same shall be increased from time to time;

provided that the foregoing events shall constitute Good Reason only if the Company fails to cure such event within 30 days after receipt from Executive of written notice of the event which constitutes Good Reason; and provided, further, that "Good Reason" shall cease to exist for an event on the 30th day following its occurrence unless the Executive has given the Company written notice thereof prior to such date.

For purposes of this Option, a "Change in Control" shall mean:

(1) any "person" (as such term is used in Sections 3(a)(9) and 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) or "group" (as such term is used in Section 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as such term is used in Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the Voting Stock of the Company; provided that this clause (1) shall not apply with respect to a stockholder of the Company who beneficially owns more than 50% of the Voting Stock of the Company on the Effective Date;

(2) all or substantially all of the assets or business of the Company are disposed of pursuant to a merger, consolidation or other transaction unless, immediately after such transaction, the stockholders of the Company immediately prior to the transaction own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company prior to such transaction more than 50% of the Voting Stock of the company surviving such transaction or succeeding to all or substantially all of the assets or business of the Company or the ultimate parent company of such surviving or successor company if such surviving or successor company is a subsidiary of another entity (there being excluded from the number of shares held by such stockholders, but not from the Voting Stock of the combined company, any shares received by affiliates of such other company in exchange for stock of such other company); provided that this clause (2) shall not apply if, immediately after such transaction, a stockholder of the Company who beneficially owns more than 50% of the Voting Stock of the Company on the Effective Date owns, directly or indirectly, more than 50% of the Voting Stock of the company surviving such transaction or succeeding to all or substantially all of the assets or business of the Company or the ultimate parent company of such surviving or successor company if such surviving or successor company is a subsidiary of another entity;

(3) the Company adopts any plan of liquidation providing for the distribution of all or substantially all of its assets if such plan of liquidation will result in the winding-up of the business of the Company; or

(4) the consummation of any merger, consolidation or other similar corporate transaction unless, immediately after such transaction, the stockholders of the Company immediately prior to the transaction own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company prior to such transaction more than 50% of the Voting Stock of the company surviving such transaction or its ultimate parent company if such surviving company is a subsidiary of another entity (there being excluded from the number of shares held by such stockholders, but not from the Voting Stock of the combined company, any shares received by affiliates of such other company in exchange for stock of such other company); provided that this clause (4) shall not apply if, immediately after such transaction, a stockholder of the Company who beneficially owns more than 50% of the Voting Stock of the Company on the Effective Date owns, directly or indirectly, more than 50% of the Voting Stock of the company surviving such transaction or the ultimate parent company of such surviving or successor company if such surviving company is a subsidiary of another entity.

For purposes of this definition, "the Company" shall include any entity that succeeds to all or substantially all of the business of the Company; "Voting Stock" shall mean securities of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation; and references to ownership of "more than 50% of the Voting Stock" shall mean the ownership of shares of Voting Stock that represent the right to exercise more than 50% of the votes entitled to be cast in the election of directors of a corporation.

For purposes of this Option, "Date of Termination" shall mean:

(1) if your employment is terminated by the Company without Cause, the date on which a notice indicating the specific termination provisions in the Employment

Agreement relied upon and setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under that provision ("Notice of Termination") is given or any later date set forth in such Notice of Termination, and (2) if your employment is terminated by you for Good Reason, 30 days after the date of the Company's receipt of written notice from you of the event which constitutes Good Reason (unless the Company has cured such event within such 30 day period).

Except as otherwise provided above, in the event of the termination of your Service for any reason, all unvested Options shall be immediately forfeited without consideration.

Except as otherwise provided above, no Shares subject to this Option shall vest or become exercisable upon a Change in Control (as such term is defined in the Plan, the Employment Agreement, or otherwise).

Termination Period: You may exercise this Option for 3 months after termination of your Service except as set forth in Section 4 of the Stock Option Agreement and in no event may you exercise this Option after the Expiration Date. You are responsible for keeping track of these exercise periods following a termination of your Service for any reason. The Company will not provide further notice of such periods.

Unless otherwise defined in this Notice of Stock Option Grant, the terms used herein shall have the meanings assigned to them in the Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan (the "Plan").

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and the Stock Option Agreement, all of which are attached to, and made a part of, this document.

In addition, you agree and acknowledge that your rights to any Shares underlying this Option will be earned only as you provide Service over time, that this Option is not being granted to you as consideration for services you rendered to the Company (or any Parent, Subsidiary, or Affiliate) prior to your Date of Grant, and that nothing in this Notice of Stock Option Grant or the attached documents confers upon you any right to continue your employment or consulting relationship with the Company (or any Parent, Subsidiary, or Affiliate) for any period of time, nor does it interfere in any way with your right or the Company's (or any Parent's, Subsidiary's, or Affiliate's) right to terminate that relationship at any time, for any reason, with or without cause.

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.

OPTIONEE: MARTHA STEWART LIVING OMNIMEDIA, INC.

Signature By: _____

Print Name Title: _____

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

STOCK OPTION AGREEMENT

1. **Grant of Option.** Martha Stewart Living Omnimedia, Inc., a Delaware corporation (the "Company"), hereby grants to the Optionee named in the Notice of Stock Option Grant attached to this Stock Option Agreement (the "Optionee"), an option (the "Option") to purchase the total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant (the "Notice"), at the exercise price per Share set forth in the Notice (the "Exercise Price") subject to the terms, definitions and provisions of the Company's Omnibus Stock and Option Compensation Plan (the "Plan"), which is incorporated in this Stock Option Agreement (the "Agreement") by reference. Unless otherwise defined in this Agreement, the terms used in this Agreement shall have the meanings defined in the Plan.

This Option is intended to be an Incentive Stock Option as defined in Section 422 of the Code only to the extent so designated in the Notice, and to the extent it is not so designated or to the extent this Option does not qualify as an Incentive Stock Option, it is intended to be a Nonstatutory Stock Option. Notwithstanding the foregoing, even if designated as an Incentive Stock Option, if the Shares subject to this Option (and all other incentive stock options granted to Optionee by the Company or any Parent or Subsidiary, including under other plans of the Company) that first become exercisable in any calendar year have an aggregate fair market value (determined for each Share as of the date of grant of the option covering such Share) in excess of \$100,000, the Shares in excess of \$100,000 shall be treated as subject to a Nonstatutory Stock Option in accordance with applicable law.

2. **Exercise of Option.**

(a) **Right to Exercise.** This Option shall be exercisable during its term in accordance with the Vesting Schedule, Termination Period and Expiration Date set forth in the Notice, Section 4 below and with the applicable provisions of the Plan. This Option may not be exercised for a fraction of a share.

(b) **Method of Exercise.**

(i) This Option shall be exercisable by execution and delivery of the Notice of Exercise attached hereto as Exhibit A or of any other form of written notice approved for such purpose by the Company which shall state Optionee's election to exercise this Option, the number of Shares in respect of which this Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such Shares as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered to the Company by such means as are determined by the Committee in its discretion to constitute adequate delivery. The written notice shall be accompanied by payment of the aggregate Exercise Price for the purchased Shares.

(ii) As a condition to the exercise of this Option and as further set forth in Section 13 of the Plan, Optionee agrees to make adequate provision for federal, state or other tax or withholding obligations, if any, which arise upon the grant, vesting or exercise of this Option, or disposition of Shares, whether by withholding, direct payment to the Company, or otherwise.

(iii) The Company is not obligated, and will have no liability for failure, to issue or deliver any Shares upon exercise of this Option unless such issuance or delivery would comply with all applicable laws, rules and regulations, with such compliance determined by the Company in consultation with its legal counsel. This Option may not be exercised until such time as the Plan has been approved by the Company's stockholders, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such Shares would constitute a violation of any applicable laws, rules or regulations, including any applicable U.S. federal or state securities laws or any other law or regulation, including any rule under Part 221 of Title 12 of the Code of Federal Regulations as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by applicable laws, rules or regulations. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which this Option is exercised with respect to such Shares.

(iv) Subject to compliance with all applicable laws, rules and regulations, this Option shall be deemed to be exercised upon receipt by the Company of the appropriate written notice of exercise accompanied by the Exercise Price and the satisfaction of any applicable withholding obligations.

3. **Method of Payment.** Payment of the Exercise Price shall be by any of the following, or a combination of the following, at the election of Optionee: (a) cash, (b) check, (c) Cashless Exercise, or (d) surrender of previously owned Shares.

4. **Termination of Relationship.** Following the date of termination of Optionee's Service for any reason (the "Termination Date"), Optionee may exercise this Option only as set forth in the Notice and this Section 4. If Optionee does not exercise this Option within the Termination Period set forth in the Notice or the termination periods set forth below, this Option shall terminate in its entirety. In no event may this Option be exercised after the Expiration Date set forth in the Notice. In the event of termination of Optionee's Service other than as a result of Optionee's Disability, death or for Cause, Optionee may, to the extent Optionee is vested in the Option Shares at the Termination Date, exercise this Option during the Termination Period set forth in the Notice. In the event of any other termination, Optionee may exercise this Option only as described below:

(a) **Termination upon Disability of Optionee.** In the event of termination of Optionee's Service as a result of Optionee's Disability, Optionee may, but only within 12 months from the Termination Date, exercise this Option to the extent Optionee is vested in the Option Shares.

(b) **Death of Optionee.** In the event of the death of Optionee while in Service or within 3 months following the termination of Optionee's Service, this Option may be exercised at any time within 12 months following the date of death by any beneficiary properly designated by the Optionee or, if no such beneficiary exists, by the Optionee's estate or by a person who acquired the right to exercise this Option by bequest or inheritance, but only to the extent Optionee is vested in the Option Shares.

(c) **Termination for Cause.** In the event Optionee's Service is terminated for Cause, this Option shall terminate immediately upon such termination for Cause. In the event Optionee's employment or consulting relationship with the Company is suspended pending investigation of whether such relationship shall be terminated for Cause, all Optionee's rights under this Option, including the right to exercise this Option, shall be suspended during the investigation period.

5. **Non-Transferability of Option.** This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution. The designation of a beneficiary does not constitute a transfer. This Option may be exercised during the lifetime of Optionee only by Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

6. **Authorization to Release Necessary Personal Information.**

(a) Optionee hereby authorizes and directs Optionee's employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding Optionee's employment, the nature and amount of Optionee's compensation and the facts and conditions of Optionee's participation in the Plan (including, but not limited to, Optionee's 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 Optionee's participation in the Plan. Optionee understands 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 Option under the Plan or with whom shares acquired pursuant to this Option or cash from the sale of shares underlying this Option may be deposited. Optionee acknowledges 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 Optionee's residence. Furthermore, Optionee acknowledges 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 Optionee's participation in the Plan.

(b) Optionee may at any time withdraw the consents herein by contacting Optionee's local human resources representative in writing. Optionee further acknowledges that withdrawal of consent may affect Optionee's ability to exercise or realize benefits from this Option, and Optionee's ability to participate in the Plan.

7. No Entitlement or Claims for Compensation.

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

(b) Neither the Plan nor this Option or any other Award granted under the Plan shall be deemed to give Optionee 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 Optionee's 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 Optionee 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 Option or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) Optionee acknowledges that he or she is voluntarily participating in the Plan.

(d) The future value of the underlying Shares is unknown and cannot be predicted with certainty. If the underlying Shares do not increase in value, the Option will have no value. If Optionee exercises the Option and obtains Shares, the value of the Shares acquired upon exercise may increase or decrease in value, even below the Exercise Price.

8. **Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to the Option granted under and participation in the Plan or future options that may be granted under the Plan by electronic means or to request Optionee's consent to participate in the Plan by electronic means. Optionee hereby consents 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.

9. **Translation.** If this Agreement or any other document related to the Plan is translated into a language other than English and if the translated version is different from the English version, the English version will take precedence.

10. **Effect of Agreement.** Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof (and has had an opportunity to consult counsel regarding the Option terms), and hereby accepts this Option and agrees to be bound by its contractual terms as set forth herein and in the Plan. Optionee hereby

agrees to accept as binding, conclusive and final all decisions and interpretations of the Committee regarding any questions relating to this Option. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of the Notice and this Agreement, the Plan terms and provisions shall prevail.

11. **Miscellaneous.**

(a) **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.

(b) **Entire Agreement; Enforcement of Rights.** This Agreement, together with the Notice and 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 or, if permitted by the Company, electronically accepted, 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.

(c) **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.

(d) **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 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 Optionee at the address maintained for Optionee in the Company's records.

(e) **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 Optionee under this Agreement may not be assigned without the prior written consent of the Company.

(f) **Section 409A.** The intent of the parties is that the Options under this Agreement are exempt from Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A) and, accordingly, to the maximum extent permitted, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A.

EXHIBIT A

NOTICE OF EXERCISE

To: Martha Stewart Living Omnimedia, Inc.
Attn: Administrator of the Omnibus Stock and Option Compensation Plan
Subject: Notice of Intention to Exercise Stock Option

This Notice of Exercise constitutes official notice that the undersigned intends to exercise Optionee's option to purchase _____ shares of Martha Stewart Living Omnimedia, Inc. Common Stock, under and pursuant to the Company's Omnibus Stock and Option Compensation Plan (the "Plan") and the Notice of Stock Option Grant and Stock Option Agreement (the "Agreement") dated _____, as follows:

Number of Shares: _____
Exercise Price per Share: _____
Total Exercise Price: _____
Method of Payment of Exercise Price: _____

The shares should be registered in the name (s) of:

_____ and
_____.

By signing below, I hereby agree to be bound by all of the terms and conditions set forth in the Plan and the Agreement. If applicable, proof of my right to purchase the shares pursuant to the Plan and the Agreement is enclosed.²

Dated: _____

(Signature)

(Signature)³

(Please Print Name)

(Please Print Name)

(Full Address)

(Full Address)

¹ If more than one name is listed, please specify whether the owners will hold the shares as community property or as joint tenants with the right of survivorship.

² Applicable if someone other than the Optionee (e.g., a death beneficiary) is exercising the stock option.

³ Each person in whose name shares are to be registered must sign this Notice of Exercise.

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

NOTICE OF STOCK OPTION GRANT

Optionee:

Daniel M. Taitz

You have been granted an option (the "Option") to purchase Common Stock of Martha Stewart Living Omnimedia, Inc. (the "Company"), as follows:

Date of Grant: August 22, 2011

Exercise Price Per Share: As to the Shares subject to this Option that vest on Milestone 6 (as defined below), \$6.00; as to the Shares subject to this Option that vest on Milestone 8 (as defined below), \$8.00; as to the Shares subject to this Option that vest on Milestone 10 (as defined below), \$10.00; and as to the Shares subject to this Option that vest on Milestone 12 (as defined below), \$12.00

Total Number of Shares: 200,000

Total Exercise Price: As to the Shares subject to this Option that vest on Milestone 6 (as defined below), \$300,000; as to the Shares subject to this Option that vest on Milestone 8 (as defined below), \$400,000; as to the Shares subject to this Option that vest on Milestone 10 (as defined below), \$500,000; and as to the Shares subject to this Option that vest on Milestone 12 (as defined below), \$600,000

Type of Option: Incentive Stock Option
 x Nonstatutory Stock Option

Expiration Date: August 21, 2021

Vesting Schedule: So long as your Service continues, the Shares underlying this Option shall vest and become exercisable in accordance with the following schedule:
(i) 50,000 of the Shares subject to this Option shall vest at such time as the trailing average closing price of the Common Stock of the Company during any thirty (30) consecutive days during the period beginning on August 22, 2011 and ending on August 22, 2014 (the "Performance Period") has been at least equal to six (6) dollars (the "Milestone 6");

(ii) 50,000 of the Shares subject to this Option shall vest at such time as the trailing average closing price of the Common Stock of the Company during any thirty (30) consecutive days during the Performance Period has been at least equal to eight (8) dollars (the "Milestone 8");

(iii) 50,000 of the Shares subject to this Option shall vest at such time as the trailing average closing price of the Common Stock of the Company during any thirty (30) consecutive days during the Performance Period has been at least equal to ten (10) dollars (the "Milestone 10"); and

(iv) 50,000 of the Shares subject to this Option shall vest at such time as the trailing average closing price of the Common Stock of the Company during any thirty (30) consecutive days during the Performance Period has been at least equal to twelve (12) dollars (the "Milestone 12").

If some or all of the Shares subject to this Option referred to in sections (i), (ii), (iii), and (iv) above do not vest in accordance with such sections, all of such Shares subject to this Option that do not vest as of August 22, 2014 shall be immediately forfeited and terminate without consideration.

In the event of the termination of your Service for any reason, all unvested Options shall be immediately forfeited without consideration.

No Shares subject to this Option shall vest or become exercisable upon a Change in Control (as such term is defined in the Plan or otherwise).

Termination Period:

You may exercise this Option for 3 months after termination of your Service except as set forth in Section 4 of the Stock Option Agreement and in no event may you exercise this Option after the Expiration Date. You are responsible for keeping track of these exercise periods following a termination of your Service for any reason. The Company will not provide further notice of such periods.

Unless otherwise defined in this Notice of Stock Option Grant, the terms used herein shall have the meanings assigned to them in the Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan (the "Plan").

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and the Stock Option Agreement, all of which are attached to, and made a part of, this document.

In addition, you agree and acknowledge that your rights to any Shares underlying this Option will be earned only as you provide Service over time, that this Option is not being granted to you as consideration for services you rendered to the Company (or any Parent, Subsidiary, or Affiliate) prior to your Date of Grant, and that nothing in this Notice of Stock Option Grant or the attached documents confers upon you any right to continue your employment or consulting relationship with the Company (or any Parent, Subsidiary, or Affiliate) for any period of time, nor does it interfere in any way with your right or the Company's (or any Parent's, Subsidiary's, or Affiliate's) right to terminate that relationship at any time, for any reason, with or without cause.

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.

OPTIONEE: MARTHA STEWART LIVING OMNIMEDIA, INC.

Signature By: _____

Print Name Title: _____

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

STOCK OPTION AGREEMENT

1. **Grant of Option.** Martha Stewart Living Omnimedia, Inc., a Delaware corporation (the "Company"), hereby grants to the Optionee named in the Notice of Stock Option Grant attached to this Stock Option Agreement (the "Optionee"), an option (the "Option") to purchase the total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant (the "Notice"), at the exercise price per Share set forth in the Notice (the "Exercise Price") subject to the terms, definitions and provisions of the Company's Omnibus Stock and Option Compensation Plan (the "Plan"), which is incorporated in this Stock Option Agreement (the "Agreement") by reference. Unless otherwise defined in this Agreement, the terms used in this Agreement shall have the meanings defined in the Plan.

This Option is intended to be an Incentive Stock Option as defined in Section 422 of the Code only to the extent so designated in the Notice, and to the extent it is not so designated or to the extent this Option does not qualify as an Incentive Stock Option, it is intended to be a Nonstatutory Stock Option. Notwithstanding the foregoing, even if designated as an Incentive Stock Option, if the Shares subject to this Option (and all other incentive stock options granted to Optionee by the Company or any Parent or Subsidiary, including under other plans of the Company) that first become exercisable in any calendar year have an aggregate fair market value (determined for each Share as of the date of grant of the option covering such Share) in excess of \$100,000, the Shares in excess of \$100,000 shall be treated as subject to a Nonstatutory Stock Option in accordance with applicable law.

2. **Exercise of Option.**

(a) **Right to Exercise.** This Option shall be exercisable during its term in accordance with the Vesting Schedule, Termination Period and Expiration Date set forth in the Notice, Section 4 below and with the applicable provisions of the Plan. This Option may not be exercised for a fraction of a share.

(b) **Method of Exercise.**

(v) This Option shall be exercisable by execution and delivery of the Notice of Exercise attached hereto as Exhibit A or of any other form of written notice approved for such purpose by the Company which shall state Optionee's election to exercise this Option, the number of Shares in respect of which this Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such Shares as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered to the Company by such means as are determined by the Committee in its discretion to constitute adequate delivery. The written notice shall be accompanied by payment of the aggregate Exercise Price for the purchased Shares.

(vi) As a condition to the exercise of this Option and as further set forth in Section 13 of the Plan, Optionee agrees to make adequate provision for federal, state or other tax or withholding obligations, if any, which arise upon the grant, vesting or exercise of this Option, or disposition of Shares, whether by withholding, direct payment to the Company, or otherwise.

(vii) The Company is not obligated, and will have no liability for failure, to issue or deliver any Shares upon exercise of this Option unless such issuance or delivery would comply with all applicable laws, rules and regulations, with such compliance determined by the Company in consultation with its legal counsel. This Option may not be exercised until such time as the Plan has been approved by the Company's stockholders, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such Shares would constitute a violation of any applicable laws, rules or regulations, including any applicable U.S. federal or state securities laws or any other law or regulation, including any rule under Part 221 of Title 12 of the Code of Federal Regulations as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by applicable laws, rules or regulations. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which this Option is exercised with respect to such Shares.

(viii) Subject to compliance with all applicable laws, rules and regulations, this Option shall be deemed to be exercised upon receipt by the Company of the appropriate written notice of exercise accompanied by the Exercise Price and the satisfaction of any applicable withholding obligations.

3. **Method of Payment.** Payment of the Exercise Price shall be by any of the following, or a combination of the following, at the election of Optionee: (a) cash, (b) check, (c) Cashless Exercise, or (d) surrender of previously owned Shares.

4. **Termination of Relationship.** Following the date of termination of Optionee's Service for any reason (the "Termination Date"), Optionee may exercise this Option only as set forth in the Notice and this Section 4. If Optionee does not exercise this Option within the Termination Period set forth in the Notice or the termination periods set forth below, this Option shall terminate in its entirety. In no event may this Option be exercised after the Expiration Date set forth in the Notice. In the event of termination of Optionee's Service other than as a result of Optionee's Disability, death or for Cause, Optionee may, to the extent Optionee is vested in the Option Shares at the Termination Date, exercise this Option during the Termination Period set forth in the Notice. In the event of any other termination, Optionee may exercise this Option only as described below:

(a) **Termination upon Disability of Optionee.** In the event of termination of Optionee's Service as a result of Optionee's Disability, Optionee may, but only within 12 months from the Termination Date, exercise this Option to the extent Optionee is vested in the Option Shares.

(b) **Death of Optionee.** In the event of the death of Optionee while in Service or within 3 months following the termination of Optionee's Service, this Option may be exercised at any time within 12 months following the date of death by any beneficiary properly designated by the Optionee or, if no such beneficiary exists, by the Optionee's estate or by a person who acquired the right to exercise this Option by bequest or inheritance, but only to the extent Optionee is vested in the Option Shares.

(c) **Termination for Cause.** In the event Optionee's Service is terminated for Cause, this Option shall terminate immediately upon such termination for Cause. In the event Optionee's employment or consulting relationship with the Company is suspended pending investigation of whether such relationship shall be terminated for Cause, all Optionee's rights under this Option, including the right to exercise this Option, shall be suspended during the investigation period.

5. **Non-Transferability of Option.** This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution. The designation of a beneficiary does not constitute a transfer. This Option may be exercised during the lifetime of Optionee only by Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

6. **Authorization to Release Necessary Personal Information.**

(a) Optionee hereby authorizes and directs Optionee's employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding Optionee's employment, the nature and amount of Optionee's compensation and the facts and conditions of Optionee's participation in the Plan (including, but not limited to, Optionee's 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 Optionee's participation in the Plan. Optionee understands 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 Option under the Plan or with whom shares acquired pursuant to this Option or cash from the sale of shares underlying this Option may be deposited. Optionee acknowledges 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 Optionee's residence. Furthermore, Optionee acknowledges 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 Optionee's participation in the Plan.

(b) Optionee may at any time withdraw the consents herein by contacting Optionee's local human resources representative in writing. Optionee further acknowledges that withdrawal of consent may affect Optionee's ability to exercise or realize benefits from this Option, and Optionee's ability to participate in the Plan.

7. No Entitlement or Claims for Compensation.

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

(b) Neither the Plan nor this Option or any other Award granted under the Plan shall be deemed to give Optionee 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 Optionee's 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 Optionee 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 Option or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) Optionee acknowledges that he or she is voluntarily participating in the Plan.

(d) The future value of the underlying Shares is unknown and cannot be predicted with certainty. If the underlying Shares do not increase in value, the Option will have no value. If Optionee exercises the Option and obtains Shares, the value of the Shares acquired upon exercise may increase or decrease in value, even below the Exercise Price.

8. **Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to the Option granted under and participation in the Plan or future options that may be granted under the Plan by electronic means or to request Optionee's consent to participate in the Plan by electronic means. Optionee hereby consents 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.

9. **Translation.** If this Agreement or any other document related to the Plan is translated into a language other than English and if the translated version is different from the English version, the English version will take precedence.

10. **Effect of Agreement.** Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof (and has had an opportunity to consult counsel regarding the Option terms), and hereby accepts this Option and agrees to be bound by its contractual terms as set forth herein and in the Plan. Optionee hereby

agrees to accept as binding, conclusive and final all decisions and interpretations of the Committee regarding any questions relating to this Option. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of the Notice and this Agreement, the Plan terms and provisions shall prevail.

11. **Miscellaneous.**

(a) **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.

(b) **Entire Agreement; Enforcement of Rights.** This Agreement, together with the Notice and 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 or, if permitted by the Company, electronically accepted, 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.

(c) **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.

(d) **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 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 Optionee at the address maintained for Optionee in the Company's records.

(e) **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 Optionee under this Agreement may not be assigned without the prior written consent of the Company.

(f) **Section 409A.** The intent of the parties is that the Options under this Agreement are exempt from Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A) and, accordingly, to the maximum extent permitted, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A.

EXHIBIT A
NOTICE OF EXERCISE

To: Martha Stewart Living Omnimedia, Inc.
Attn: Administrator of the Omnibus Stock and Option Compensation Plan
Subject: Notice of Intention to Exercise Stock Option

This Notice of Exercise constitutes official notice that the undersigned intends to exercise Optionee's option to purchase _____ shares of Martha Stewart Living Omnimedia, Inc. Common Stock, under and pursuant to the Company's Omnibus Stock and Option Compensation Plan (the "Plan") and the Notice of Stock Option Grant and Stock Option Agreement (the "Agreement") dated _____, as follows:

Number of Shares: _____
Exercise Price per Share: _____
Total Exercise Price: _____
Method of Payment of Exercise Price: _____
The shares should be registered in the name (s) of: _____

_____ and
_____.

By signing below, I hereby agree to be bound by all of the terms and conditions set forth in the Plan and the Agreement. If applicable, proof of my right to purchase the shares pursuant to the Plan and the Agreement is enclosed.⁵

Dated: _____

(Signature)

(Please Print Name)

(Full Address)

(Signature)⁶

(Please Print Name)

(Full Address)

⁴ If more than one name is listed, please specify whether the owners will hold the shares as community property or as joint tenants with the right of survivorship.
⁵ Applicable if someone other than the Optionee (e.g., a death beneficiary) is exercising the stock option.
⁶ Each person in whose name shares are to be registered must sign this Notice of Exercise.

**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 August 22, 2011 by and between Martha Stewart Living Omnimedia, Inc., a Delaware corporation (the "Company"), and Daniel M. Taitz ("you" or "Executive") 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, 50,000 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.

(a) 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"):

- 16,667 Restricted Stock Units shall vest on August 22, 2013;
- 16,667 Restricted Stock Units shall vest on August 22, 2014; and
- 16,666 Restricted Stock Units shall vest on August 22, 2015.

(b) Notwithstanding the foregoing, (i) if your employment is terminated by the Company without Cause (as defined below) or by you for Good Reason (as defined below), in either case on or after August 22, 2012 and prior to the occurrence of a Change in Control (as defined below), the Restricted Stock Units that would otherwise have vested within twelve months of the Date of Termination (as defined below) had you remained in employment through such date shall immediately vest on the date of your "separation from service" as defined in Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A"), and (ii) if your employment is terminated by the Company without Cause or by you for Good Reason, in either case after the occurrence of a Change in Control, the Restricted Stock Units that would otherwise have vested within twenty-four months of the Date of Termination had you remained in employment through such date shall immediately vest on the date of your "separation from service" as defined in Section 409A.

(c) For purposes of this Agreement, "Cause" shall mean that the Company has made a good faith determination that any of the following has occurred:

(i) the continued failure by the Executive to substantially perform his material duties to the Company (other than due to mental or physical disability) after written notice specifying such failure and the manner in which the Executive may rectify such failure in the future; provided, that in the case of conduct above which is capable of being cured, the Executive shall have a period of thirty (30) days after the Executive is provided with written notice thereof in which to cure;

(ii) the Executive has engaged in misconduct that has resulted in material damage to the Company's business or reputation;

(iii) the Executive's conviction of, or entry of a plea of guilty or nolo contendere with respect to, (A) a crime involving moral turpitude, fraud, forgery, embezzlement or similar conduct, or (B) a felony crime;

(iv) the Executive has engaged in fraud against the Company or misappropriated Company property (other than incidental property); or

(v) the Executive has materially breached his employment agreement ("Employment Agreement") with the Company dated August 22, 2011 (the "Effective Date"); provided, that in the case of a material breach which is capable of being cured, the Executive shall have a period of thirty (30) days after the Executive is provided with written notice thereof in which to cure.

(d) For purposes of this Agreement, "Good Reason" shall mean the occurrence, without the Executive's express prior written consent, of any one or more of the following:

(i) a material diminution by the Company in the Executive's overall authority, duties and responsibilities; provided that (x) this provision shall not include a diminution in authority, duties and responsibilities solely by virtue of the Company becoming private or being acquired and made part of a larger entity, and (y) for the avoidance of doubt, removal of any of the specific duties or responsibilities set forth in Section 2 above (e.g. removal of responsibility for the area of technology) shall not in itself constitute a material diminution in the Executive's overall authority, duties and responsibilities (however, for the avoidance of doubt, such removal may be taken into account with other factors in order to determine whether there has been a material diminution in the Executive's overall authority, duties and responsibilities);

(ii) a material breach of the Employment Agreement by the Company;

(iii) a material change to the reporting structure set forth in Section 2(a) of the Employment Agreement;

(iv) the Company's requiring the Executive to be based at a location in excess of 35 miles from the location of the Executive's principal job location or office specified in Section 2(b), except for required travel on the Company's business to an extent substantially consistent with the Executive's position; or

(v) a material reduction by the Company of the Executive's Base Salary or performance-based target bonus percentage, as the same shall be increased from time to time;

provided that the foregoing events shall constitute Good Reason only if the Company fails to cure such event within 30 days after receipt from Executive of written notice of the event which constitutes Good Reason; and provided, further, that "Good Reason" shall cease to exist for an event on the 30th day following its occurrence unless the Executive has given the Company written notice thereof prior to such date.

(e) For purposes of this Agreement, a "Change in Control" shall mean:

(i) any "person" (as such term is used in Sections 3(a)(9) and 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) or "group" (as such term is used in Section 14(d)(2) of the Exchange Act) is or becomes a "beneficial owner" (as such term is used in Rule 13d-3 promulgated under the Exchange Act) of 50% or more of the Voting Stock of the Company; provided that this clause (1) shall not apply with respect to a stockholder of the Company who beneficially owns more than 50% of the Voting Stock of the Company on the Effective Date;

(ii) all or substantially all of the assets or business of the Company are disposed of pursuant to a merger, consolidation or other transaction unless, immediately after such transaction, the stockholders of the Company immediately prior to the transaction own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company prior to such transaction more than 50% of the Voting Stock of the company surviving such transaction or succeeding to all or substantially all of the assets or business of the Company or the ultimate parent company of such surviving or successor company if such surviving or successor company is a subsidiary of another entity (there being excluded from the number of shares held by such stockholders, but not from the Voting Stock of the combined company, any shares received by affiliates of such other company in exchange for stock of such other company); provided that this clause (2) shall not apply if, immediately after such transaction, a stockholder of the Company who beneficially owns more than 50% of the Voting Stock of the Company on the Effective Date owns, directly or indirectly, more than 50% of the Voting Stock of the company surviving such transaction or succeeding to all or substantially all of the assets or business of the Company or the ultimate parent company of such surviving or successor company if such surviving or successor company is a subsidiary of another entity;

(iii) the Company adopts any plan of liquidation providing for the distribution of all or substantially all of its assets if such plan of liquidation will result in the winding-up of the business of the Company; or

(iv) the consummation of any merger, consolidation or other similar corporate transaction unless, immediately after such transaction, the stockholders of the Company immediately prior to the transaction own, directly or indirectly, in substantially the same proportion as they owned the Voting Stock of the Company prior to such transaction more than 50% of the Voting Stock of the company surviving such transaction or its ultimate parent company if such surviving company is a subsidiary of another entity (there being excluded from the number of shares held by such stockholders, but not from the Voting Stock of the combined company, any shares received by affiliates of such other company in exchange for stock of such other company); provided that this clause (iv) shall not apply if, immediately after such transaction, a stockholder of the Company who beneficially owns more than 50% of the Voting Stock of the Company on the Effective Date owns, directly or indirectly, more than 50% of the Voting Stock of the company surviving such transaction or the ultimate parent company of such surviving or successor company if such surviving company is a subsidiary of another entity.

For purposes of this definition, "the Company" shall include any entity that succeeds to all or substantially all of the business of the Company; "Voting Stock" shall mean securities of any class or classes having general voting power under ordinary circumstances, in the absence of contingencies, to elect the directors of a corporation; and references to ownership of "more than 50% of the Voting Stock" shall mean the ownership of shares of Voting Stock that represent the right to exercise more than 50% of the votes entitled to be cast in the election of directors of a corporation.

(f) For purposes of this Agreement, "Date of Termination" shall mean:

(i) if your employment is terminated by the Company without Cause, the date on which a notice indicating the specific termination provisions in the Employment Agreement relied upon and setting forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of your employment under that provision ("Notice of Termination") is given or any later date set forth in such Notice of Termination, and

(ii) if your employment is terminated by you for Good Reason, 30 days after the date of the Company's receipt of written notice from you of the event which constitutes Good Reason (unless the Company has cured such event within such 30 day period).

(g) Except as otherwise provided above, no Restricted Stock Units shall vest or become exercisable upon a Change in Control (as such term is defined in the Plan, the Employment Agreement, or otherwise).

(h) Payments, if any, shall be made as soon as practicable after the applicable Vesting Date, but in any event no later than 30 days following the Vesting Date.

3. Termination of Service. Except as set forth in Section 2 above, 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 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. Absent any arrangements to the contrary, the Company may withhold Shares from the settlement of the Restricted Stock Units to satisfy the applicable tax withholding obligations hereunder.

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.

23. Section 409A.

(a) The intent of the parties is that the Restricted Stock Units and payments under this Agreement either comply with or are exempt from Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A") and, accordingly, to the maximum extent permitted, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A.

(b) If you are deemed on the date of your "separation from service" with the Company to be a "specified employee," each within the meaning of Section 409A(a)(2)(B) of the Code, then with regard to any payment under this Agreement that is considered "deferred compensation" under Section 409A the timing of which depends on your separation from service, such payment shall not be made prior to the earlier of (i) the expiration of the six-month period measured from the date of your separation from service, or (ii) the date of your death, if and to the extent such six-month delay is required to comply with Section 409A(a)(2)(B). In such event, on or promptly after the first business day following the six-month delay period, all payments delayed pursuant to this Section 23 shall be paid or reimbursed to you in a lump sum, and any remaining payments due under this Agreement shall be paid or provided in accordance with the normal payment dates specified for them herein.

(c) Each separate payment hereunder shall be treated as a separate payment to the maximum extent permissible under Section 409A.

* * * *

(Signature Page Follows)

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

NOTICE OF STOCK OPTION GRANT

Optionee:

Daniel M. Taitz _____

You have been granted an option (the "Option") to purchase Common Stock of Martha Stewart Living Omnimedia, Inc. (the "Company"), as follows:

Date of Grant: August 22, 2011
 Exercise Price Per Share: As to the Shares subject to this Option that vest on Milestone 6 (as defined below), \$6.00; as to the Shares subject to this Option that vest on Milestone 8 (as defined below), \$8.00; as to the Shares subject to this Option that vest on Milestone 10 (as defined below), \$10.00; and as to the Shares subject to this Option that vest on Milestone 12 (as defined below), \$12.00
 Total Number of Shares: 200,000
 Total Exercise Price: As to the Shares subject to this Option that vest on Milestone 6 (as defined below), \$300,000; as to the Shares subject to this Option that vest on Milestone 8 (as defined below), \$400,000; as to the Shares subject to this Option that vest on Milestone 10 (as defined below), \$500,000; and as to the Shares subject to this Option that vest on Milestone 12 (as defined below), \$600,000
 Type of Option: Incentive Stock Option
 x Nonstatutory Stock Option
 Expiration Date: August 21, 2021
 Vesting Schedule: So long as your Service continues, the Shares underlying this Option shall vest and become exercisable in accordance with the following schedule:
 (i) 50,000 of the Shares subject to this Option shall vest at such time as the trailing average closing price of the Common Stock of the Company during any thirty (30) consecutive days during the period beginning on August 22, 2011 and ending on August 22, 2014 (the "Performance Period") has been at least equal to six (6) dollars (the "Milestone 6");

(ii) 50,000 of the Shares subject to this Option shall vest at such time as the trailing average closing price of the Common Stock of the Company during any thirty (30) consecutive days during the Performance Period has been at least equal to eight (8) dollars (the "Milestone 8");

(iii) 50,000 of the Shares subject to this Option shall vest at such time as the trailing average closing price of the Common Stock of the Company during any thirty (30) consecutive days during the Performance Period has been at least equal to ten (10) dollars (the "Milestone 10"); and

(iv) 50,000 of the Shares subject to this Option shall vest at such time as the trailing average closing price of the Common Stock of the Company during any thirty (30) consecutive days during the Performance Period has been at least equal to twelve (12) dollars (the "Milestone 12").

If some or all of the Shares subject to this Option referred to in sections (i), (ii), (iii), and (iv) above do not vest in accordance with such sections, all of such Shares subject to this Option that do not vest as of August 22, 2014 shall be immediately forfeited and terminate without consideration.

In the event of the termination of your Service for any reason, all unvested Options shall be immediately forfeited without consideration.

No Shares subject to this Option shall vest or become exercisable upon a Change in Control (as such term is defined in the Plan or otherwise).

Termination Period:

You may exercise this Option for 3 months after termination of your Service except as set forth in Section 4 of the Stock Option Agreement and in no event may you exercise this Option after the Expiration Date. You are responsible for keeping track of these exercise periods following a termination of your Service for any reason.

The Company will not provide further notice of such periods.

Unless otherwise defined in this Notice of Stock Option Grant, the terms used herein shall have the meanings assigned to them in the Martha Stewart Living Omnimedia, Inc. Omnibus Stock and Option Compensation Plan (the "Plan").

By your signature and the signature of the Company's representative below, you and the Company agree that this Option is granted under and governed by the terms and conditions of the Plan and the Stock Option Agreement, all of which are attached to, and made a part of, this document.

In addition, you agree and acknowledge that your rights to any Shares underlying this Option will be earned only as you provide Service over time, that this Option is not being granted to you as consideration for services you rendered to the Company (or any Parent, Subsidiary, or Affiliate) prior to your Date of Grant, and that nothing in this Notice of Stock Option Grant or the attached documents confers upon you any right to continue your employment or consulting relationship with the Company (or any Parent, Subsidiary, or Affiliate) for any period of time, nor does it interfere in any way with your right or the Company's (or any Parent's, Subsidiary's, or Affiliate's) right to terminate that relationship at any time, for any reason, with or without cause.

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.

OPTIONEE: MARTHA STEWART LIVING OMNIMEDIA, INC.

Signature By: _____

Print Name Title: _____

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

STOCK OPTION AGREEMENT

1. **Grant of Option.** Martha Stewart Living Omnimedia, Inc., a Delaware corporation (the "Company"), hereby grants to the Optionee named in the Notice of Stock Option Grant attached to this Stock Option Agreement (the "Optionee"), an option (the "Option") to purchase the total number of shares of Common Stock (the "Shares") set forth in the Notice of Stock Option Grant (the "Notice"), at the exercise price per Share set forth in the Notice (the "Exercise Price") subject to the terms, definitions and provisions of the Company's Omnibus Stock and Option Compensation Plan (the "Plan"), which is incorporated in this Stock Option Agreement (the "Agreement") by reference. Unless otherwise defined in this Agreement, the terms used in this Agreement shall have the meanings defined in the Plan.

This Option is intended to be an Incentive Stock Option as defined in Section 422 of the Code only to the extent so designated in the Notice, and to the extent it is not so designated or to the extent this Option does not qualify as an Incentive Stock Option, it is intended to be a Nonstatutory Stock Option. Notwithstanding the foregoing, even if designated as an Incentive Stock Option, if the Shares subject to this Option (and all other incentive stock options granted to Optionee by the Company or any Parent or Subsidiary, including under other plans of the Company) that first become exercisable in any calendar year have an aggregate fair market value (determined for each Share as of the date of grant of the option covering such Share) in excess of \$100,000, the Shares in excess of \$100,000 shall be treated as subject to a Nonstatutory Stock Option in accordance with applicable law.

2. **Exercise of Option.**

(a) **Right to Exercise.** This Option shall be exercisable during its term in accordance with the Vesting Schedule, Termination Period and Expiration Date set forth in the Notice, Section 4 below and with the applicable provisions of the Plan. This Option may not be exercised for a fraction of a share.

(b) **Method of Exercise.**

(ix) This Option shall be exercisable by execution and delivery of the Notice of Exercise attached hereto as Exhibit A or of any other form of written notice approved for such purpose by the Company which shall state Optionee's election to exercise this Option, the number of Shares in respect of which this Option is being exercised, and such other representations and agreements as to the holder's investment intent with respect to such Shares as may be required by the Company pursuant to the provisions of the Plan. Such written notice shall be signed by Optionee and shall be delivered to the Company by such means as are determined by the Committee in its discretion to constitute adequate delivery. The written notice shall be accompanied by payment of the aggregate Exercise Price for the purchased Shares.

(x) As a condition to the exercise of this Option and as further set forth in Section 13 of the Plan, Optionee agrees to make adequate provision for federal, state or other tax or withholding obligations, if any, which arise upon the grant, vesting or exercise of this Option, or disposition of Shares, whether by withholding, direct payment to the Company, or otherwise.

(xi) The Company is not obligated, and will have no liability for failure, to issue or deliver any Shares upon exercise of this Option unless such issuance or delivery would comply with all applicable laws, rules and regulations, with such compliance determined by the Company in consultation with its legal counsel. This Option may not be exercised until such time as the Plan has been approved by the Company's stockholders, or if the issuance of such Shares upon such exercise or the method of payment of consideration for such Shares would constitute a violation of any applicable laws, rules or regulations, including any applicable U.S. federal or state securities laws or any other law or regulation, including any rule under Part 221 of Title 12 of the Code of Federal Regulations as promulgated by the Federal Reserve Board. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by applicable laws, rules or regulations. Assuming such compliance, for income tax purposes the Shares shall be considered transferred to Optionee on the date on which this Option is exercised with respect to such Shares.

(xii) Subject to compliance with all applicable laws, rules and regulations, this Option shall be deemed to be exercised upon receipt by the Company of the appropriate written notice of exercise accompanied by the Exercise Price and the satisfaction of any applicable withholding obligations.

3. **Method of Payment.** Payment of the Exercise Price shall be by any of the following, or a combination of the following, at the election of Optionee: (a) cash, (b) check, (c) Cashless Exercise, or (d) surrender of previously owned Shares.

4. **Termination of Relationship.** Following the date of termination of Optionee's Service for any reason (the "Termination Date"), Optionee may exercise this Option only as set forth in the Notice and this Section 4. If Optionee does not exercise this Option within the Termination Period set forth in the Notice or the termination periods set forth below, this Option shall terminate in its entirety. In no event may this Option be exercised after the Expiration Date set forth in the Notice. In the event of termination of Optionee's Service other than as a result of Optionee's Disability, death or for Cause, Optionee may, to the extent Optionee is vested in the Option Shares at the Termination Date, exercise this Option during the Termination Period set forth in the Notice. In the event of any other termination, Optionee may exercise this Option only as described below:

(a) **Termination upon Disability of Optionee.** In the event of termination of Optionee's Service as a result of Optionee's Disability, Optionee may, but only within 12 months from the Termination Date, exercise this Option to the extent Optionee is vested in the Option Shares.

(b) **Death of Optionee.** In the event of the death of Optionee while in Service or within 3 months following the termination of Optionee's Service, this Option may be exercised at any time within 12 months following the date of death by any beneficiary properly designated by the Optionee or, if no such beneficiary exists, by the Optionee's estate or by a person who acquired the right to exercise this Option by bequest or inheritance, but only to the extent Optionee is vested in the Option Shares.

(c) **Termination for Cause.** In the event Optionee's Service is terminated for Cause, this Option shall terminate immediately upon such termination for Cause. In the event Optionee's employment or consulting relationship with the Company is suspended pending investigation of whether such relationship shall be terminated for Cause, all Optionee's rights under this Option, including the right to exercise this Option, shall be suspended during the investigation period.

5. **Non-Transferability of Option.** This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution. The designation of a beneficiary does not constitute a transfer. This Option may be exercised during the lifetime of Optionee only by Optionee. The terms of this Option shall be binding upon the executors, administrators, heirs, successors and assigns of Optionee.

6. **Authorization to Release Necessary Personal Information.**

(a) Optionee hereby authorizes and directs Optionee's employer to collect, use and transfer in electronic or other form, any personal information (the "Data") regarding Optionee's employment, the nature and amount of Optionee's compensation and the facts and conditions of Optionee's participation in the Plan (including, but not limited to, Optionee's 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 Optionee's participation in the Plan. Optionee understands 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 Option under the Plan or with whom shares acquired pursuant to this Option or cash from the sale of shares underlying this Option may be deposited. Optionee acknowledges 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 Optionee's residence. Furthermore, Optionee acknowledges 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 Optionee's participation in the Plan.

(b) Optionee may at any time withdraw the consents herein by contacting Optionee's local human resources representative in writing. Optionee further acknowledges that withdrawal of consent may affect Optionee's ability to exercise or realize benefits from this Option, and Optionee's ability to participate in the Plan.

7. No Entitlement or Claims for Compensation.

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

(b) Neither the Plan nor this Option or any other Award granted under the Plan shall be deemed to give Optionee 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 Optionee's 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 Optionee 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 Option or any outstanding Award that is forfeited and/or is terminated by its terms or to any future Award.

(c) Optionee acknowledges that he or she is voluntarily participating in the Plan.

(d) The future value of the underlying Shares is unknown and cannot be predicted with certainty. If the underlying Shares do not increase in value, the Option will have no value. If Optionee exercises the Option and obtains Shares, the value of the Shares acquired upon exercise may increase or decrease in value, even below the Exercise Price.

8. **Electronic Delivery.** The Company may, in its sole discretion, decide to deliver any documents related to the Option granted under and participation in the Plan or future options that may be granted under the Plan by electronic means or to request Optionee's consent to participate in the Plan by electronic means. Optionee hereby consents 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.

9. **Translation.** If this Agreement or any other document related to the Plan is translated into a language other than English and if the translated version is different from the English version, the English version will take precedence.

10. **Effect of Agreement.** Optionee acknowledges receipt of a copy of the Plan and represents that he or she is familiar with the terms and provisions thereof (and has had an opportunity to consult counsel regarding the Option terms), and hereby accepts this Option and agrees to be bound by its contractual terms as set forth herein and in the Plan. Optionee hereby

agrees to accept as binding, conclusive and final all decisions and interpretations of the Committee regarding any questions relating to this Option. In the event of a conflict between the terms and provisions of the Plan and the terms and provisions of the Notice and this Agreement, the Plan terms and provisions shall prevail.

11. **Miscellaneous.**

(a) **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.

(b) **Entire Agreement; Enforcement of Rights.** This Agreement, together with the Notice and 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 or, if permitted by the Company, electronically accepted, 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.

(c) **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.

(d) **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 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 Optionee at the address maintained for Optionee in the Company's records.

(e) **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 Optionee under this Agreement may not be assigned without the prior written consent of the Company.

(f) **Section 409A.** The intent of the parties is that the Options under this Agreement are exempt from Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A) and, accordingly, to the maximum extent permitted, all provisions of this Agreement shall be construed in a manner consistent with the requirements for avoiding taxes or penalties under Section 409A.

EXHIBIT A

NOTICE OF EXERCISE

To: Martha Stewart Living Omnimedia, Inc.
Attn: Administrator of the Omnibus Stock and Option Compensation Plan
Subject: Notice of Intention to Exercise Stock Option

This Notice of Exercise constitutes official notice that the undersigned intends to exercise Optionee's option to purchase _____ shares of Martha Stewart Living Omnimedia, Inc. Common Stock, under and pursuant to the Company's Omnibus Stock and Option Compensation Plan (the "Plan") and the Notice of Stock Option Grant and Stock Option Agreement (the "Agreement") dated _____, as follows:

Number of Shares: _____
Exercise Price per Share: _____
Total Exercise Price: _____
Method of Payment of Exercise Price: _____
The shares should be registered in the name (s) of: _____

_____ and
_____.

By signing below, I hereby agree to be bound by all of the terms and conditions set forth in the Plan and the Agreement. If applicable, proof of my right to purchase the shares pursuant to the Plan and the Agreement is enclosed.⁸

Dated: _____

(Signature)

(Please Print Name)

(Full Address)

(Signature)⁹

(Please Print Name)

(Full Address)

⁷ If more than one name is listed, please specify whether the owners will hold the shares as community property or as joint tenants with the right of survivorship.

⁸ Applicable if someone other than the Optionee (e.g., a death beneficiary) is exercising the stock option.

⁹ Each person in whose name shares are to be registered must sign this Notice of Exercise.

CONFIDENTIAL TREATMENT REQUESTED – REDACTED COPY

Confidential Treatment has been requested for portions of this Exhibit. Confidential portions of this Exhibit are designated by [*]. A complete version of this Exhibit has been filed separately with the Securities and Exchange Commission.**

JCP/MSLO AGREEMENT

December 6, 2011

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JCP/MSLO AGREEMENT

THIS AGREEMENT (this "Agreement"), dated as of December 6, 2011 (the "Effective Date"), is entered into by and between J. C. PENNEY CORPORATION, INC., a Delaware corporation with its offices at 6501 Legacy Drive, Plano, Texas 75024 together with its Affiliates and Subsidiaries ("JCP"), and Martha Stewart Living Omnimedia, Inc. ("MSLO") a Delaware corporation with its offices at 601 West 26th Street, 9th Floor New York, New York 10001. JCP and MSLO are sometimes referred to collectively as the "Parties" and each individually as a "Party."

RECITALS:

WHEREAS, MSLO is the owner of the Martha Stewart Marks (as defined below) together with the trade dress and the goodwill associated therewith in the Territory (as defined below);

WHEREAS, JCP owns and operates retail stores, publishes and distributes merchandise catalogs, and owns and operates Internet web sites where home products and related goods are sold to consumers;

WHEREAS, MSLO desires to institute a program to open and operate retail stores that will sell certain products more fully described below;

WHEREAS, JCP will provide certain services in connection with such retail stores, as more fully described below;

WHEREAS, MSLO desires to have a website where MSLO-branded products will be available for sale directly to consumers;

WHEREAS, MSLO desires that JCP develop and host such website on MSLO's behalf, all pursuant to the terms and conditions of this Agreement; and

WHEREAS, JCP desires to obtain from MSLO, and MSLO desires to grant to JCP, on the terms and conditions set forth herein, a right to use the Trademarks, as defined below, in connection with the manufacture and sale of certain products in the Territory;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

DEFINITIONS. When used in this Agreement, the following terms will have the meanings set forth below:

(a) "Additional Categories" means those categories set forth on Appendix 1.

(b) "Affiliate" means, with respect to a Party, any entity that controls, is controlled by, or is under common control with, such Party.

(c) "Annual Commitment," is defined in Section 8(a)(i)(A).

(d) "Applicable Threshold" means, with respect to each Major Product Category, the amounts set forth on Appendix 2.

(e) "Change of Control Outlets" is defined in Section 17(a)(i).

(f) "Claims" is defined in Section 16(a).

(g) "Commission" is defined in Section 9(b)(i).

(h) "Committee" is defined in Section 4(d)(i).

(i) "Competitive Product" means any product within the Product Categories if the branding or endorsement for such product is associated with Oprah Winfrey, Ina Garten (including Barefoot Contessa), The Food Network, Real Simple, Better Homes and Gardens, epicurious.com or Rosie O'Donnell.

(j) "Creative Services" is defined in Section 8(a)(ii).

(k) "Creative Services Proposal" is defined in Section 8(a)(ii).

(l) "Customer Data" means any and all data and information, whether personally identifiable, non-personally identifiable, aggregate or otherwise, collected from end users of the Website (as used in this definition, "Website" shall include Future Technology Devices) in the course of, or otherwise derived from or regarding an end user's access to or use of the Website, including without limitation that which is collected using cookies, web bugs, URL referrer data, audited and unaudited hits, visits, click-throughs, impressions or otherwise, including without limitation an end user's profile, name, email address, IP address, time & date stamp, transaction history, financial information, website traffic information and any other data regarding or submitted or generated by the end user to the Website, provided that Customer Data will not include any payment transaction information.

(m) "Design Fee" is defined in Section 9(e).

(n) "Distribution Channels" means retail stores, consumer-direct mail programs and consumer-direct websites.

(o) "Existing Licensees" means MSLO licensees as of the date of this Agreement (including all renewals and extensions thereof).

(p) "Exploitation Materials" means any and all advertising materials, consumer facing materials, packaging materials, and other materials created hereunder and relating to the Products.

(q) "Extra-Territory Sales" is defined in Section 1(b).

(r) "Future Technology Device" is a new device that becomes commercially available or a method or means of ecommerce that allows for electronic payment via an electronic means other than a Website.

(s) "Force Majeure" means acts of God, government restrictions, wars, insurrections or any other event beyond the reasonable control of the Party whose performance under this Agreement is affected thereby.

(t) "Forecast" is defined in Section 10(e)(ii).

(u) "GMP" is defined in Section 9(c).

(v) "Guaranteed Minimum Payment" is defined in Section 9(c).

(w) "Indemnified Party" is defined in Section 16(d).

(x) "Indemnifying Party" is defined in Section 16(d).

(y) "Initial Design Fee" is defined in Section 9(e).

(z) "Initial Term" is defined in Section 13.

(aa) "Intellectual Property" is defined in Section 12(g).

(bb) "JCP Home Store" means the area within JCP Stores in which categories for the home are sold.

(cc) "JCP Outlets" is defined in Section 6(a).

(dd) "JCP Parties" is defined in Section 16(b).

(ee) "JCP Store" means a retail store branded with the J.C. Penney brand (or a successor brand to the J.C. Penney brand) and no other brand.

(ff) "JCP Website" means the website currently located at jcp.com and other websites where JCP sells products in the Product Categories, subject to MSLO's prior approval.

(gg) "Kitchen Categories" means those product categories set forth on Appendix 4.

(hh) "Kitchen Products" means those products in the Kitchen Categories (i) manufactured and distributed in MSLO Stores pursuant to this Agreement, (ii) approved and authorized by MSLO pursuant to this Agreement, and (iii) bearing one or more of the Trademarks on the product itself or on a hang-tag label and/or other means of packaging.

(ii) "Launch" is defined in Section 6(a).

(jj) "Launch Date" means a date in February, 2013 to be mutually agreed upon by the Parties, but in no event later than February 28, 2013.

(kk) "Major Product Category" means each of the categories of Products listed on Appendix 2.

(ll) "Marketing Amounts" means the out-of-pocket dollar amounts expended by JCP exclusively with respect to the marketing of Products by JCP in the form of media buys, advertising agency fees and expenses and such other costs and expenses, if any, as are hereinafter agreed to in writing by the Parties as being marketing expenses for purposes of this definition.

(mm) "Martha Stewart Marks" means trademarks incorporating the Stewart Property.

(nn) "MSLO Content" means mutually agreed-upon MSLO content created outside of this Agreement and used, at the Parties' option, in connection with the marketing and promotion of the Products.

(oo) "MSLO Materials" is defined in Section 12(g).

(pp) "MSLO Media Properties" is defined in Section 2(b).

(qq) "MSLO Parties" is defined in Section 16(a).

(rr) "MSLO Products" means products in the Non-Exclusive Categories and (commencing on the applicable Occurrence Dates) in the Additional Categories (i) manufactured and distributed pursuant to this Agreement, (ii) approved and authorized by MSLO pursuant to this Agreement, and (iii) bearing one or more of the Trademarks on the product itself or on a hang-tag, label, and/or other means of packaging. Notwithstanding the foregoing, for clarity but without limitation, in no event will products in Additional Categories be considered MSLO Products unless and until the applicable Occurrence Date for such categories.

(ss) "MSLO Stores" is defined in Section 4(a).

(tt) "MSLO Website Materials" is defined in paragraph 7 of Appendix 3.

(uu) "Net Sales" means (i) for retail store sales: the actual retail price paid to JCP by JCP's customers (not including any sales or other taxes) for all Products sold, less any discounts, refunds, credits or returns (with respect to such Products only) given by JCP to its customers, provided that in no case will the amount deducted from Net Sales for returns for defective merchandise exceed 5% of gross sales on an annualized basis; and (ii) for mail order and e-commerce sales: gross shipments (not including any sales or other taxes) for all Products sold, less any customer order adjustments (discounts, refunds, credits or other allowances with respect to such Products only), and net of any returns of Products given by JCP to its customers. No costs incurred in the manufacture, purchase, sale, advertising or distribution of the Products, or any indirect expenses, or any other deduction not expressly provided for herein may be deducted. Net Sales reflect all consideration, in whatever form, that JCP receives or that otherwise accrues to JCP on account of the sale of the Products, except that Net Sales will not reflect consideration JCP receives based on shipping.

(vv) "Non-Exclusive Categories" means those categories set forth on Appendix 5.

(ww) "Non-Exclusive Products" means those products in the Non-Exclusive Categories (i) manufactured and distributed pursuant to this Agreement, (ii) approved and authorized by MSLO pursuant to this Agreement, and (iii) bearing one or more of the Trademarks on the product itself or on a hang-tag label and/or other means of packaging.

(xx) "Occurrence Date" means, with respect to any Additional Product Category, the date on which MSLO notifies JCP in writing that it has obtained rights to such Additional Product Category from the Third Party Licensee that will enable MSLO to grant additional rights to JCP hereunder, consistent with the terms of Section 1(c) below.

(yy) "PII" is defined in Section 10(c).

(zz) "Party" is defined in the preamble.

(aaa) "Payment Period" is defined in Section 9(a).

(bbb) "Payments" is defined in Section 10(b).

(ccc) "Payment Schedule" means the schedule of payments included on Appendix 6.

(ddd) "Product Categories" are, collectively, the Non-Exclusive Categories, the Kitchen Categories and the Additional Categories.

(eee) "Products" means Kitchen Products and MSLO Products.

(fff) "Prohibited Retail Outlets" means the retail outlets in the Territory set forth on Appendix 7.

(ggg) "Projections" is defined in Section 10(e)(i).

(hhh) "Property" means the Trademarks and any other MSLO Materials included in the Products, including, for example but without limitation, product designs, trade dress and the Stewart Property.

(iii) "Quarterly Report" is defined in Section 10(b).

(jjj) "Renewal" is defined in Section 13.

(kkk) "Requested Product" is defined in Section 1(e).

(lll) "Reversion Date" is defined in Section 1(e).

(mmm) "Security Incident" is defined in Section 10(c).

(nnn) "Sell-Off Period" is defined in Section 14(d).

(ooo) "Stewart Property" means Martha Stewart's name, voice, signature and likeness.

(ppp) "Sub-Category GMP Increase" is defined in Section 9(c)(ii).

(qqq) "Term" is defined in Section 13.

(rrr) "Territory" means the United States (including the District of Columbia and Puerto Rico).

(sss) "Third Party Licensee" means an MSLO licensee that, as of the date hereof, licenses the Additional Categories and/or the Kitchen Categories from MSLO.

(ttt) "Trademark Use Materials" is defined in Section 11(a).

(uuu) "Trademarks" means any trademarks or service marks that may be used in connection with the Products, as hereinafter mutually agreed to in writing by the Parties, provided that the Parties agree that the Trademarks will incorporate certain Stewart Property.

(vvv) "Website" means the website source code addressable as www.marthastewartstore.com (or such other URL as the parties may agree) that sells the Products (as well as any other MSLO-branded products designated by MSLO) and that is developed, built, owned, operated and hosted by JCP in accordance with the terms of this Agreement, including without limitation those set forth on Appendix 3.

(www) "2006 Agreement" means that certain MSLO license agreement dated April 3, 2006, including all amendments thereto and extensions and renewals thereof.

1. **GRANT.**

(a) MSLO hereby grants to JCP, and JCP hereby accept from MSLO, the non-exclusive right to use, without the right to modify or create derivative works of, the Trademarks in the Territory during the Term, in connection with or related to the manufacture and sale of the MSLO Products through Distribution Channels branded with the J.C. Penney brand (or a successor brand to the J.C. Penney brand) and no other brand, and the sale of Products through the Website. MSLO also grants to JCP, and JCP hereby accepts from MSLO, a limited, non-exclusive right to use the Stewart Property solely in connection with the manufacture, distribution and use of advertising and promotional materials for the Products, provided that each item of proposed advertising and promotional material bearing all or any portion of the Trademarks or the Stewart Property, including without limitation any press release, will be subject to MSLO's advance review and approval, all as more fully set forth herein. The foregoing rights will not include the right to grant rights to third parties, except as necessary for JCP to advertise and manufacture the Products.

(b) The rights granted above are limited to the Territory. However: (i) JCP may manufacture the Products outside the Territory; (ii) MSLO acknowledges that JCP will not be in breach for sales that may be shipped to consumers outside of the Territory (the "Extra-Territory Sales") made through JCP's United States-based direct mail and consumer direct website platforms that are branded with the J.C. Penney brand (and any successor brand thereto) and no other brand, provided that: (x) JCP agrees that the Extra-Territory Sales will be made on a non-exclusive basis; and (y) in the event MSLO enters into a third party license or other agreement (or is in the process of doing so) that is inconsistent with the Extra-Territory Sales (provided that MSLO agrees to use commercially reasonable efforts to except the Extra-Territory Sales from the third party license or other agreement), MSLO will provide notice to JCP, and JCP agrees that the Extra-Territory Sales will cease within 90 days of receipt of such notice from MSLO; and (iii) the parties agree to discuss in good faith opportunities for distribution of Products outside the Territory, it being understood that the foregoing shall not preclude either Party from considering or entering into any transactions or arrangements that would be inconsistent with the possible distribution of Products by JCP outside the Territory.

(c) For the avoidance of doubt, in no event will the foregoing rights, or any other rights that may be granted to JCP herein, include any rights with respect to products in the Additional Categories prior to the applicable Occurrence Date. On an applicable Occurrence Date, the applicable Additional Categories will be available to JCP consistent with the grant of rights set forth in Section 1(a).

(d) JCP's distribution of the Products shall be limited to retail customers who purchase Products through Distribution Channels branded with the J.C. Penney brand or a successor brand and no other brand within the Territory and to retail customers who purchase Products through the Website. JCP shall not sell Products to retail customers through any designated discount outlet store or similar discount or outlet venue without MSLO's prior written consent; provided that seasonal merchandise may be placed in sale racks within JCP Stores at the end of the applicable season. In addition, JCP may sell Products through its furniture outlets branded with the J.C. Penney brand and no other brand.

(e) JCP will distribute and sell quantities of Products commensurate with an exclusive brand presence and with the quality and prestige of the Martha Stewart brand. JCP agrees to maintain inventory of the Products in a manner consistent with industry standards. However, if MSLO Commissions in any Major Product Category in any consecutive twelve-month period are less than the Applicable Threshold, MSLO shall have the right to notify JCP that it intends to exclude such Major Product Category from the scope of Product Categories hereunder, unless (x) during the next full six-month calendar period commencing after the date of such notification, MSLO Commissions on such Major Product Category exceed 50% of the Applicable Threshold and (y) during each twelve-month period commencing with the month after the date of such notification, MSLO Commissions on such Major Product Category exceed the Applicable Threshold. If at any time the condition in either the preceding clause (x) or clause (y) is not satisfied, MSLO shall have the right, at any time within 90 days after it becomes aware thereof, to notify JCP that such Major Product Category (and all sub-categories thereof) shall be excluded from the scope of Product Categories hereunder effective as of the 30th day after such notification (the "Reversion Date") and JCP shall thereafter have no rights with respect to such Major Product Category hereunder, except that JCP may sell-off its existing inventory in such Products for a period of six months from the Reversion Date. In addition to and without limitation of the foregoing, in the event that MSLO requests in writing that JCP produce a

\particular Product ("Requested Product") that MSLO believes in good faith will generate meaningful Net Sales, and JCP either specifically declines to produce such Requested Product or fails to do so in commercial quantities in accordance with the terms hereof within 12 months of MSLO's written request, MSLO shall have the right to notify JCP in writing that the Requested Product will be offered on a non-exclusive basis and considered part of the Non-Exclusive Product Categories hereunder effective as of the 30th day after such notification, and JCP shall thereafter have non-exclusive rights with respect to such Requested Product. MSLO agrees to act reasonably and in the spirit of cooperation in connection with Requested Products.

(f) For the avoidance of doubt, MSLO shall remain the owner of the Trademarks and Property, and MSLO reserves all rights in and to the Trademarks and the Property not specifically granted herein.

(g) JCP hereby grants to MSLO the non-exclusive right and license to use approved JCP logos and trademarks in connection with any marketing and promotion MSLO may choose to do for the Products or the MSLO Stores hereunder, provided that nothing herein will require MSLO to do such marketing and promotion except as otherwise specifically provided herein. All such marketing and promotion will be approved by JCP, such approvals not to be unreasonably withheld or delayed.

2. **SCOPE OF EXCLUSIVITY.**

(a) Additional Categories. MSLO agrees that, subject to the exceptions set forth in this Section 2, it will not, after the date hereof and during the Term, authorize the distribution or sale, in any Distribution Channels branded with Prohibited Retail Outlets, of any items within the Additional Categories and Kitchen Categories that include the Property in the Territory. In addition, to the extent a particular product design provided by MSLO to JCP (i.e. the graphical elements) is used on a Product, MSLO agrees not to use a substantially similar design on any other products in the same Product Category during the Term in the Territory, as long as such Product is still being marketed and sold by JCP. For clarity, when assessing "substantial similarity," the parties agree that the assessment will only extend to protectable elements of the design under the United States Copyright Act of 1976, as amended from time to time. For the avoidance of doubt: (i) nothing in this Agreement will in any way limit MSLO from continuing to design, manufacture, market or sell the full range of products, including those products in the Product Categories, currently manufactured or contemplated pursuant to relationships with Existing Licensees, including any renewals or extensions thereof; (ii) MSLO shall not be precluded from accepting advertising (including without limitation integrations, provided that such integrations will be primarily product-oriented) for products in the Product Categories; (iii) the restriction set forth in this subsection will not apply to any non-Martha Stewart brand, including without limitation the Mad Hungry, Whole Living, Everyday Food or Emeril brands; (iv) MSLO reserves and may exercise the right to use the Products or any other items within the Product Category which may include the Property as favors, premiums, promotional tie-ins, give-aways, or for any other secondary use, including without limitation use in any MSLO-controlled media or public forum for editorial, educational, news, promotional or entertainment purposes; (v) MSLO reserves and may exercise the right to authorize the sale, marketing and distribution of any luxury items within the Product Categories in the luxury retail market; and (vi) MSLO reserves and may exercise the right to authorize the sale, marketing and distribution of any luxury furniture items at Ethan Allen and Raymour & Flanagan.

(b) Certain MSLO Rights. Notwithstanding the foregoing and anything to the contrary herein: (i) the foregoing proscription shall not apply to any existing MSLO licensees or their successors, who will not be precluded from selling products through any Prohibited Retail Outlets; (ii) the foregoing proscription shall not apply to any future MSLO licensees or their successors, who will not be precluded from selling products other than products in the Kitchen Categories and the Additional Categories (if any, and then only after the applicable Occurrence Date) through any Prohibited Retail Outlets; (iii) nothing shall prevent Martha Stewart from appearing in any advertisements for any Prohibited Retail Outlets in connection with the availability of products other than the Products; (iv) nothing shall prevent MSLO from selling advertisements to any Prohibited Retail Outlets in any MSLO magazines, websites, television or radio programs or other media properties (collectively, "MSLO Media Properties"); and (v) nothing shall prevent MSLO from selling or distributing such MSLO Media Properties in any stores and/or through any other means of distribution whether now known or hereafter developed throughout the world.

(c) Non-Exclusive Categories. JCP acknowledges and agrees that the Non-Exclusive Categories are not subject to the restrictions set forth in Section 2(a) above. However, MSLO agrees that to the extent that as a result of the expiration or termination of any relationships with Existing Licensees, MSLO may be able to grant additional rights to a Non-Exclusive Category to JCP, MSLO will offer JCP an exclusive first negotiation with respect to the additional rights to such Non-Exclusive Category. More specifically, once MSLO so notifies JCP, the Parties will negotiate in good faith for a period of 60 days. During such time period, MSLO will not negotiate with any third parties. If, at the end of such 60 day period, the parties cannot come to agreement on the terms and conditions for the grant of additional rights to such Non-Exclusive Category, MSLO will be free to offer such Non-Exclusive Category to a third party (on a non-exclusive basis only).

(d) Website. Other than as provided in Section 6(c) as to Future Technology Devices and as otherwise provided in Section 1(e) with respect to the Reversion Date and Requested Products, MSLO agrees that it will not use and will not license or otherwise grant any third party the rights to use the Martha Stewart Marks or any confusingly similar mark in a URL to be utilized for ecommerce for sales of products in the Kitchen Categories and the Additional Product Categories (if any, and then only after the applicable Occurrence Date).

3. **NON-COMPETE**. Without the prior consent of MSLO, which MSLO may withhold in its absolute discretion, neither JCP nor any of its Affiliates shall manufacture, market, promote, sell or distribute any Competitive Product. In addition, neither JCP nor its Affiliates will directly or indirectly enter into another agreement in any of the Product Categories that is comparable to this Agreement in scope or that otherwise provides more overall exposure or more sales volume to another brand in the Product Categories than is provided to the Products, which shall be the centerpiece of the JCP Home Store offerings.

4. MSLO STORES

(a) Preamble. MSLO has rights with respect to retail stores that prominently feature the Martha Stewart Marks or feature the Stewart Property ("MSLO Stores") for the marketing and sale of any products, including the Products, branded with Stewart Property and any derivations thereof. At MSLO's request, in order to permit MSLO to benefit from JCP's expertise in the retail store business and in order to strengthen the business relationship between MSLO and JCP, JCP has agreed to provide reasonable assistance to MSLO with respect to MSLO's program of opening and operating MSLO Stores, including the support and services set forth herein.

(b) Design and Construction of MSLO Stores.

(i) MSLO will select, subject to JCP's reasonable approval, a reputable design firm experienced in the design of specialty retail stores to develop the detailed design plans for the MSLO Stores. For this purpose, JCP shall propose to MSLO for its consideration one or more design firms with which JCP is familiar. JCP will contract directly with the design firm selected hereunder, will bear the fees and expenses of the design firm and will be the point of contact for the design firm.

(ii) MSLO will provide advice and input to the design firm with respect to the overall look and feel of the MSLO Store, and will have the right to approve design elements, such approval not to be arbitrarily withheld.

(iii) All finishes and the construction of each MSLO Store will be subject to the mutual approval of the Parties, such approval not to be arbitrarily withheld, provided that the Parties agree that the quality will be consistent with that of the Martha Stewart brand. The Parties acknowledge that the finishes and construction may vary by location. JCP will bear the costs of construction of each MSLO Store.

(iv) With respect to the store design process, MSLO will have approval rights at each relevant stage (e.g., design, lay-out, finishes, etc), such approval not to be arbitrarily withheld.

(v) Each MSLO Store will be prominently located in the applicable JCP Store so that it is a focal point for the JCP Home Store, and JCP will meaningfully consult with MSLO as to the general location of the MSLO Store in the JCP Home Store.

(vi) The MSLO Store will be identified in each applicable JCP store as the "Martha Stewart Store" (or such other designation incorporating Martha's name as may be proposed by MSLO and reasonably acceptable to JCP). To the extent permissible, there will be signage at the entrance of each applicable JCP Store, in a form satisfactory to MSLO, prominently referring to the "Martha Stewart Store" (or such other designation) as being located within the JCP Store. The MSLO Store will be identified in all store directories located within the applicable JCP Stores.

(vii) Signage at the entrance of each MSLO Store, in a form reasonably satisfactory to MSLO, will prominently identify the store as the Martha Stewart Store (or such other designation if applicable).

(viii) The MSLO Store shall have a distinct entrance from the JCP selling floor. The vast majority of locations will have a major entrance and secondary entrances. The MSLO Store will be designed and constructed so that it is physically and visually identifiable as a separate store (subject to mutual agreement of MSLO and JCP). The JCP Store will not use design or other elements of the MSLO Store in the JCP Store itself in a way that would detract from the physically and visually identifiable separation of the MSLO Store.

(c) Employees.

(i) MSLO and JCP shall agree on the appropriate staffing level for each MSLO Store. MSLO shall have the right to propose the employees to be hired to and terminated from work in the MSLO Stores, and JCP shall have the sole right to decide in its reasonable discretion whether such employees shall be hired or terminated. JCP shall also decide in its reasonable discretion whether such employees shall be MSLO employees (if acceptable to MSLO) or JCP employees.

(ii) The Parties shall jointly develop a training program for MSLO Store employees. Prior to commencing work at any MSLO Store, each employee shall complete (to each Party's reasonable satisfaction) such training program.

(iii) The Parties shall consult with each other periodically to review the job performance of the employees in accordance with the quality standards suitable for the MSLO Stores. In that regard, the Parties shall also consult with each other on the compensation to be payable from time to time to employees of the MSLO Store.

(d) Operation of MSLO Stores

(i) The operation of each MSLO Store shall be overseen by an oversight committee (the "Committee") consisting of the two relationship managers for the Parties designated pursuant to Section 6(d), or by such other representatives as MSLO or JCP may designate. The Committee shall provide advice and guidance to the MSLO Store employees but shall not have management authority. The expenses of operating the MSLO Stores shall be borne by JCP except as otherwise provided herein. In the event that any state, municipality or other taxing jurisdiction imposes taxes or fees on a "per store" basis and such tax is incurred solely as a result of the opening and operating of the MSLO Store, MSLO shall be responsible for registering the MSLO Stores as necessary with such jurisdiction and paying the amount of any such taxes or fees payable in respect of any such MSLO Stores.

(ii) At least sixty days in advance of each fiscal year, the Committee shall prepare or cause to be prepared a budget for the MSLO Stores for such fiscal year and shall update the budget from time to time during the year as the Committee determines to be appropriate.

(iii) Consistent with such budget and subject to meaningful consultation with MSLO, JCP shall determine which Products to order for each MSLO Store and shall purchase such Products at its expense. All such Products shall be designed, developed and sourced in accordance with the relevant provisions of this Agreement. With respect to any decisions to put any Products on "clearance" sale, to the extent permitted by law, JCP and MSLO agree to be available to consult as to such decision. The Products to be sold in the MSLO Stores shall be Kitchen Products, provided that at JCP's reasonable request and upon appropriate adjustment of the GMP Amount pursuant to Section 9, MSLO shall agree to permit the sale of other Products in the MSLO Stores. Kitchen Products (and any other Products sold in the MSLO Stores in accordance herewith) will be displayed in the MSLO Stores in a manner satisfactory to MSLO in its reasonable discretion.

(iv) The parties shall cause quarterly and annual financial statements to be prepared for the MSLO Stores collectively, in accordance with such accounting principles as they determine to be appropriate. JCP shall bear the cost of preparing such financial statements.

(e) Other MSLO Stores. Subject to the terms and conditions hereof, MSLO reserves the right to open MSLO Stores that are not located within JCP Stores without JCP's consent or assistance. However, MSLO agrees that it shall not open any MSLO Store that sells products in the Kitchen Categories. Further, MSLO agrees that it shall not open any MSLO Store that sells products in any other Product Category that becomes exclusive to JCP. Notwithstanding the foregoing, the restrictions herein on MSLO Stores shall not apply to any MSLO Store that focuses on the luxury retail market.

(f) Use of MSLO Store Design Following Termination. Notwithstanding anything to the contrary herein, JCP agrees within 3 months of expiration or termination of this Agreement to remove any and all MSLO branding and other Stewart Property from the MSLO Stores and to ensure that the look and feel of the MSLO Store that incorporates the signature MSLO touches is not used or otherwise replicated by JCP after the Term. By way of clarification and not limitation, JCP will not be required to remove the fixtures or flooring of the MSLO Store.

5. **THE WEBSITE**. JCP will develop the Website as provided in Section 6 (c) hereof and in accordance with the terms and conditions set forth in Appendix 3.

6. **PROGRAM ROLL-OUT**.

(a) MSLO Products. JCP's offering of MSLO Products in the Non-Exclusive Categories will be prominently introduced in commercial quantities in a manner consistent with the terms hereof (the "Launch") both in approximately 600 JCP Stores in the Territory, and on electronically enabled commerce applications branded with the J.C. Penney brand (or any successor brand thereto) and no other brand (collectively, the "JCP Outlets") by the Launch Date. Additional Categories that become available on an applicable Occurrence Date will be introduced for sale in commercial quantities consistent with the terms hereof in the JCP Outlets within 12 months of the Occurrence Date for such Product Category.

(b) MSLO Stores. MSLO Stores will be opened in approximately 600 JCP Stores in the Territory by the Launch Date, at such locations as MSLO and JCP shall reasonably agree, and with each MSLO Store having at such time the inventory and other capacity to sell commercially reasonable quantities and types of Products. JCP agrees that at the Launch Date, the MSLO Stores will sell, at a minimum, Kitchen Products. JCP further agrees that it may not offer or sell any products in the MSLO Stores that are not MSLO-branded without MSLO's prior permission, which MSLO may withhold in its sole discretion, but if such permission is given, no Commissions will be payable on the sale of such products sold in the MSLO store. MSLO agrees that JCP can feature or use products that are not MSLO-branded for sampling or demonstration purposes consistent with the Product offerings in the MSLO Store. But if such non-MSLO branded products are in the Product Categories, JCP must seek MSLO's approval, which will not be unreasonably withheld.

(c) Website/Future Technology Devices. JCP will develop the Website for an official launch no later than the Launch Date. From time to time thereafter, when any Future Technology Device becomes available such that it would be commercially reasonable to conduct the types of ecommerce activities now contemplated in Appendix 3 by implementation of such applications operable on such Future Technology Devices, the Parties may jointly determine whether JCP will develop additional applications for implementation in conjunction with any such Future Technology Device within a reasonable time after the Parties determination and in accordance with the provisions of Appendix 3. Notwithstanding anything to the contrary herein, in the event the JCP declines to develop additional applications for implementation in conjunction with a Future Technology Device within 6 months of MSLO's request (or such other period of time as the Parties may reasonably agree), or thereafter, fails to maintain the implementation of such applications in a commercially reasonable fashion, MSLO shall have the right to develop, maintain, operate and host (or have a third party do so on its behalf subject to the restrictions set forth in this Agreement) additional applications for implementation in conjunction with the particular Future Technology Device.

(d) Personnel. MSLO will at all times employ such competent and qualified personnel as are necessary to fulfill its obligations under this Agreement, which includes maintaining a substantially comparable standard for design personnel as in effect as of the Effective Date, taking in effect, among other things, design talent and years of experience. JCP will at all times employ such competent and qualified personnel as are necessary to fulfill its obligations under this Agreement and to maximize sales of the Products hereunder. Each Party will also appoint a relationship manager that is reasonably acceptable to the other Party to act as a point person for all matters under this Agreement. JCP agrees that, for the 12 months before the program roll-out, its relationship manager's job functions will be primarily related to the program roll-out. Both JCP and MSLO will provide each other with the name, e-mail address, mailing address, and phone number of each Party's relationship manager and other designated contact(s) for all approvals required under this Agreement, and each Party will update the other of any changes to such information. Each Party agrees to promptly replace any of its personnel hereunder if any such individual becomes unavailable for any reason; provided, that notwithstanding the foregoing, for the sake of maintaining continuity, each Party agrees to use its commercially reasonable efforts not to change or re-assign its respective relationship managers or other designated contacts unless such Party determines in good faith that any such change or re-assignment would be in the best interests of the Parties' relationship hereunder.

7. PRODUCT DESIGN AND MERCHANDISING. The Parties recognize that the name Martha Stewart has valuable goodwill with the consuming public, that Martha Stewart is recognized for her award-winning magazine, Martha Stewart Living, for the bestselling product lines that bear her name, and as an expert on all aspects of everyday living, from cooking and entertaining to decorating and home renovating. MSLO and JCP intend to develop, manufacture and sell Products of design and quality consistent with Martha Stewart's image and prestige. Accordingly, all aspects of the Products and the promotion and marketing thereof will be subject to the prior approval of both parties and will be developed and approved as follows:

(a) **Merchandising Plan.** Twice a year, JCP and MSLO will jointly develop merchandising plans at least twelve (12) months (or such other time period as the Parties may agree is appropriate for any particular Product Category) prior to the planned sale of any Product assortment. When developing the merchandise plan, which will include the timing of Product launches, the Parties will consider and incorporate JCP's monthly marketing cadence.

(b) **Concept and Design of Products.** Based on the agreed-upon merchandising plans, JCP and MSLO will jointly develop the Products, as follows:

(i) **Presentation by JCP of Certain Product Information.** JCP will present to MSLO at least two times each year and as needed on an ongoing basis during the Term in advance of the Spring/Summer and Fall/Holiday seasons, for MSLO's input, review and approval, the following information regarding a proposed Product assortment: target market and customer profiles, the number of Products to be placed in any given category (slot count), target retails, as well as any relevant competitive information. MSLO will use the foregoing information to prepare initial product design concepts, as outlined below.

(ii) **Product Concept.** MSLO will then prepare initial product design concepts for each Product. (For clarity, MSLO's design obligations hereunder will not include any Creative Services.) MSLO will review such concepts with JCP, and the Parties will work together to finalize such concepts. At the concept stage, the Parties will jointly agree on the appropriate design ratio for each Product Category for the season under design. MSLO will design a number of Products that is sufficient to fill the agreed upon design ratio and the slot count referenced in subsection (i) above. MSLO agrees to adhere to a mutually approved design and sourcing calendar, which JCP will provide to MSLO for MSLO's reasonable review and approval.

(iii) **Product Design.** After a product design concept has been finalized, MSLO will produce and deliver to JCP a Product design relating to such concept, in a manner consistent with Martha Stewart's decorating and/or design philosophy. Each Product design will be identified by MSLO with a specific "[BRAND TBD]" design number. JCP and MSLO will then discuss and review such product designs for price point, delivery and other pertinent merchandise needs. MSLO shall have no obligation to revise any Product design more than two times in response to JCP's request for revisions.

(iv) **Flex PLM System.** Both Parties will be responsible for directly utilizing the Flex PLM system; provided, that JCP shall be responsible for all costs and expenses incurred by MSLO in utilizing such system, including, without limitation, all licensing fees.

The Parties acknowledge and agree that their performance pursuant to the above subsections (i)-(iii) may happen simultaneously.

(c) Approval of Products. Following the development of a Product design pursuant to paragraph (b) above, both JCP and MSLO must approve, in their reasonable discretion, samples of each Product before such Product can be manufactured for sale, as follows:

(i) **Presentation of Samples by JCP.** Prior to presentation to MSLO, JCP will have reviewed samples of each Product. If such sample is acceptable to JCP with respect to design and quality, JCP will indicate its approval by signing a written approval form relating to such sample and providing a copy thereof to MSLO together with the relevant sample, including all component parts thereof. JCP agrees to use its reasonable efforts to send samples to MSLO as opposed to requiring MSLO personnel to travel to inspect a sample. MSLO will review and approve such samples in accordance with the approval procedures set forth in subsection (ii) below. In addition, JCP agrees to provide MSLO with a sample of each final Product for MSLO to include in its sample library, except that with respect to furniture, JCP is only obligated to provide a representative piece of each furniture collection. JCP agrees to consider in good faith MSLO's requests for additional furniture samples for use in editorial or for other promotional purposes in MSLO Media Properties.

(ii) **Approval by MSLO.** MSLO will review each sample provided to it hereunder. MSLO will indicate its approval (or disapproval) of such sample on the written approval form provided by JCP relating to such sample, and will return such form to JCP. JCP shall be obligated to perform up to two rounds of revisions in response to MSLO's requests for modifications to the samples. In each case, JCP shall provide MSLO with the actual revised sample for MSLO's review. JCP acknowledges that MSLO's approval decisions may be based on MSLO's subjective standards, including its aesthetic judgment regarding the appearance and other qualities of the samples. However, MSLO may not arbitrarily withhold its approvals. If such sample is not approved, MSLO will attempt to state with specificity the reasons for disapproval on such form. Any approval given by MSLO under this Agreement shall not constitute a waiver of MSLO's rights or JCP's duties under any other provision of this Agreement. Furthermore, such approval is not an acknowledgment of JCP's compliance with any laws or regulations (including without limitation any safety, truth-in-advertising, labeling or other standards) pertaining to the Products and their manufacture, marketing, sale and distribution, and shall not be so construed. MSLO's approval does not constitute a guaranty or warranty on the part of MSLO as to the fitness, quality, workmanship, or character of the Products.

(d) Packaging. JCP and MSLO will jointly develop packaging, display and label requirements for the Products, as follows:

(i) **JCP Responsibilities**. JCP will determine and execute all package, collateral, display and label requirements, both legal and otherwise, and forward the related specifications and schedules to MSLO. JCP represents and warrants that its labeling will comply with all applicable laws, rules and regulations. Notwithstanding the foregoing, JCP agrees to include such reasonable legal notices as MSLO may require to protect MSLO's rights in and to the Property.

(ii) **MSLO Responsibilities**. MSLO's packaging, display, collateral and label responsibilities shall be limited to providing JCP with creative concepts for use in carrying out JCP's responsibilities in clause (i) above. Any other services performed by MSLO in respect of packaging, display and labeling shall be Creative Services subject to Section 8(a)(ii) below.

(e) Approvals of Exploitation Materials. Both JCP and MSLO must approve in writing all Exploitation Materials, including packaging and displays, before they can be used in connection with the Products. The final samples of Exploitation Materials shall be subject to MSLO's prior approval. In addition, the location, medium or publication in which any Exploitation Material is proposed to be placed and the timing of the placement also shall be subject to meaningful consultation with MSLO. JCP shall provide to MSLO, free of charge for its permanent archives, copies of all Exploitation Materials used by JCP in connection with the business to be conducted by JCP under this Agreement. MSLO agrees that once it approves a proposed Exploitation Material, it need not review other proposed Exploitation Materials that are substantially the same (including with respect to the manner in which any Property is used or displayed) as that which MSLO previously approved.

(f) Final Products: Cancellation of Products.

(i) Following final approval of the elements for the Products pursuant to the foregoing provisions, JCP will proceed with the design of the Products consistent with the approved elements. Final Products will be of a quality equal to or exceeding the samples approved by MSLO pursuant to Section 7(c)(ii) above.

(ii) If the Parties are unable to finally approve any particular Product in accordance with the terms hereof, MSLO shall have the right to cancel the further development of such Product and, unless otherwise agreed by the Parties, such Product will be removed from the group of Products proposed to be developed, marketed and sold under this Agreement. For clarity, no Product will be commercialized hereunder without MSLO's prior review and approval.

(g) Approval Procedures. All approvals required of MSLO under this Agreement (including without limitation those set forth on Appendix 3) will be made in accordance with the provisions of Section 7(c)(ii) above. Unless otherwise expressly provided in this Agreement, MSLO agrees to provide approvals within 10 business days of a request therefore in accordance with this Agreement, provided that it will use reasonable efforts to provide such approvals within five business days of a request therefore in accordance with this Agreement.

8. **SERVICES AND OTHER PROGRAM OBLIGATIONS.**

(a) MSLO Services

(i) **Brand Promotion and Marketing.**

(A) MSLO will cause Martha Stewart to render promotional and marketing services in a professional manner consistent with the intent of this Agreement and to use her reasonable good faith efforts to participate in the promotion and imaging of the Products, including, without limitation, through television, radio and print advertising, in-store videos, appearances and other media presentations or programs and will use reasonable and appropriate opportunities to promote the Products and JCP's sale thereof, including, without limitation, interviews, editorials, press conferences, press releases and television appearances, all as may be permitted by her schedule. JCP and MSLO will cooperate in good faith to schedule the dates, times, places and manner in which Martha Stewart will fulfill her professional obligations under this Section as far in advance, and in the most convenient manner, possible. MSLO will cause Martha Stewart to be available to render brand collaboration, promotional and marketing services under this Section, but in no event for more than an aggregate of [***] days annually, inclusive of travel time (the "Annual Commitment"). Such Annual Commitment will represent MSLO's full obligation under this subsection, and any failure to provide any appearances or promotion in excess of such Annual Commitment shall not represent a breach of this Agreement or a failure to comply with the terms hereof. For clarity, the services set forth in subsections (B) and (C) below will not be included in, and will be in addition to, the Annual Commitment. JCP will pay all costs and expenses in connection with services set forth in this Section 8, including, without limitation, costs of (i) private plane air travel, food and first class lodging for Martha Stewart and two guests, and (ii) subject to JCP's travel guidelines, travel, food and lodging reimbursements for other appropriate employees of MSLO rendering services ancillary to the services rendered by Martha Stewart under this Section. Any significant expenses anticipated by Martha Stewart in excess of those generally borne by JCP will be first submitted to JCP for approval. For clarity, in the event Martha Stewart becomes unable to perform the services set forth in this section, the Parties will use reasonable efforts to agree on a replacement for Ms. Stewart. In no event will Ms. Stewart's failure to perform the foregoing services represent a breach of this Agreement, it being understood that MSLO will use commercially reasonable efforts to make Ms. Stewart available.

(B) To the extent Ms. Stewart or such other mutually approved individual is used for a television commercial, (provided that nothing herein will require MSLO to provide such services), JCP will pay or cause to be paid to Ms. Stewart [***] for the first day and [***] for each additional day of filming.

Such amounts will represent a non-refundable advance against double scale payments required by SAG and AFTRA, including all pension, health and/or welfare fund payments and other payments required by reason of Martha Stewart's services hereunder pursuant to any applicable SAG or AFTRA union, guild or collective bargaining agreement. JCP, or any other entity for which Martha Stewart is rendering her services in connection with each such commercial, will be a signatory to any such applicable union, guild and collective bargaining agreement. In addition, JCP agrees to pay to MSLO a fee of [***] for pre-production coordination and services provided in connection with the foregoing television commercial.

(C) To the extent Ms. Stewart or such other mutually approved individual is used for a print or other advertisement, such use will be subject to the rate of [***] per day.

(ii) **MSLO Creative Services.** From time to time at JCP's request, MSLO shall design, produce and approve specifications related to Product labeling, graphic services, photography, pre-press and/or other Exploitation Materials that are beyond MSLO's obligations set forth in Section 7 above (together, the "Creative Services"). After receipt of a written request for Creative Services from JCP in a form acceptable to MSLO, MSLO shall, within a reasonable time, provide to JCP a proposal with respect to such Creative Services, setting forth the scope of the Creative Services to be performed and the budget therefore, which shall include industry standard profit margins (the "Creative Services Proposal"). JCP shall notify MSLO within 10 days of a Creative Services Proposal whether it accepts the Creative Services Proposal. If JCP accepts the Creative Services Proposal within such time frame, then MSLO shall perform the Creative Services described in the Creative Services Proposal. If JCP does not accept the Creative Services Proposal, or if MSLO does not exercise its rights with respect to any or all of the Creative Services, JCP shall be free to obtain the applicable Creative Services from another provider (using "brand guidelines" provided by MSLO), provided, however, that all of MSLO's approval rights pursuant to this Agreement remain in effect with respect to any and all work generated by such service providers to be used in connection with any Product or advertising or promotion related thereto. Unless otherwise set forth in the Creative Services Proposal, JCP shall pay MSLO for any Creative Services performed by MSLO or its outside providers hereunder in accordance with the Creative Services Proposal within 30 days of receipt of invoice therefore and also shall reimburse MSLO for all reasonable costs (including without limitation travel, staffing, overhead, art direction and design, copywriting, art production, digital image correction and enhancement, retouching, styling and showroom display, web design and production, finished artwork, mechanicals, photo shoots, photography costs, etc.) reasonably incurred by MSLO in connection with the preparation and provision of such Creative Services in accordance with the Creative Services Proposal.

(iii) **MSLO Content.** At JCP's expense, MSLO will provide JCP with reasonable access to MSLO Content at the Parties' mutual convenience. Each of the Parties will designate a contact to work with the other Party with respect to all requests under this Section. JCP will propose usages of the MSLO Content and the parties will negotiate in good faith a fee for such proposed usage. JCP acknowledges that such fee may include, without limitation, payment to content creators.

(b) JCP Services. JCP is responsible for the manufacture, sale, advertising and distribution of the Products in accordance with all applicable laws, rules and regulations. JCP shall (i) produce all Exploitation Materials; (ii) effect the marketing, promotion, sale and distribution of the Products in accordance with this Agreement and enforce all of its agreements with its vendors; (iii) implement an advertising strategy, subject to MSLO's approval, not to be unreasonably withheld; and (iv) perform, at a minimum, such other services in connection with the Products as JCP would typically render in connection with comparable products, including services relating to design, manufacture, promotion, advertising, distribution and sale of products. JCP shall not favor JCP products or any other products over the Products in the same Product Category in terms of sales and promotion on an overall basis within a given Payment Period. JCP also agrees to offer MSLO employees its friends and family discount during any such promotions. JCP agrees to discuss with MSLO the possibility of placing Products on Home Shopping Network in order to increase the sales and exposure of the Products.

(c) JCP and MSLO Store Environment. JCP agrees that references to the Products will be prominent throughout the JCP Stores. In addition, JCP will display the Products in a manner and magnitude consistent with the scope of this Agreement. For clarity, JCP agrees that: (i) it will provide MSLO with meaningful consultation on product display strategy; (ii) upon introduction of a Product for sale, each such Product will be placed in a location to be mutually agreed to by the Parties and will remain in such location until such time as the Parties decide to change the location due to business needs, such as the introduction of an additional Product or clearance; and (iii) the Products will be more prominently displayed than any other products in the same Product Category. Likewise, Kitchen Products and any other Products that may be included in the MSLO Store will be displayed in the MSLO Store in a manner satisfactory to MSLO in its reasonable discretion. JCP will be responsible for the expenses incurred in connection with the development and implementation of the plans for the sales environments in the JCP Stores and the MSLO Stores and any modifications thereof, all of which will be subject to MSLO's prior review and approval in accordance with Section 7(g) hereinabove.

9. **PAYMENTS.**

(a) **Payment Periods:** "Payment Period" will mean a period of twelve of JCP's fiscal months during which this Agreement is in effect, except that the first Payment Period will start on the Effective Date and end on February 2, 2014. The Payment Periods and Guaranteed Minimum Payments will be as follows ("M" = millions):

<u>Payment Period</u>	<u>Dates</u>	<u>Initial Guaranteed Minimum Payment</u>	<u>Maximum Guaranteed Minimum Payment</u>
Payment Period 1	Effective Date – February 1, 2014	[***]	[***]
Payment Period 2	February 2, 2014 – January 31, 2015	[***]	[***]
Payment Period 3	February 1, 2015 – January 30, 2016	[***]	[***]
Payment Period 4	January 31, 2016 – January 28, 2017	[***]	[***]
Payment Period 5	January 29, 2017 – February 4, 2018	[***]	[***]
Payment Period 6	February 4, 2018 – February 2, 2019	[***]	[***]
Payment Period 7	February 3, 2019 – February 1, 2020	[***]	[***]
Payment Period 8	February 2, 2020 – January 30, 2021	[***]	[***]
Payment Period 9	January 30, 2021 – January 29, 2022	[***]	[***]
Payment Period 10	January 30, 2022 – January 28, 2023	[***]	[***]

The "Maximum Guaranteed Minimum Payment" in the chart above is the amount of the Guaranteed Minimum Payment that will be payable in the event that the Occurrence Date has occurred with respect to all Additional Categories.

Otherwise, the Guaranteed Minimum Payment will be the Initial GMP set forth above, subject to increase as provided in sub-paragraph (c)(ii) below of this Section.

(b) Payments for Product Sales.

(i) Sales in JCP Stores and in MSLO Stores. JCP must pay a commission fee (the "Commission") to MSLO at a rate of [***] of Net Sales of Products sold in any JCP Stores and in any MSLO Stores.

(ii) Sales on the JCP Website. JCP must pay a Commission to MSLO at a rate of [***] of Net Sales of MSLO Products sold through the JCP Website.

If Net Sales under subsections (i) and (ii) above meet or exceed [***] in the aggregate in any Payment Period, JCP will pay an additional [***] percent for any further Net Sales pursuant to subsections (i) and (ii) above for the remainder of the Payment Period.

(c) Guaranteed Minimum Payment.

(i) In respect of the sale of the Products in JCP Stores and MSLO Stores and on the JCP Website, in each Payment Period, JCP will guarantee the greater of the minimum amounts specified in Section 9(a) above to MSLO or [***] of the actual Commissions payable to MSLO in the prior Payment Period (the "Guaranteed Minimum Payment" or "GMP") for each Payment Period. The GMP will be payable in equal installments in accordance with the Payment Schedule on Appendix 6. The Parties agree that any Commissions paid pursuant to subsections (b)(i) and (ii) of this Section for a given Payment Period shall be credited against the GMP for such Payment Period, but no payment of amounts in any one Payment Period will be credited against the GMP for any other Payment Period.

(ii) As of any Occurrence Date or as of such time as JCP chooses to sell Additional Categories in the MSLO Store, which JCP may do at its option on 12 months written notice to MSLO, the Parties agree that the GMP will be increased by the amount set forth below opposite the applicable Product Category (as such Product Categories are more fully described in Appendix 1):

<u>Product Category</u>	<u>GMP Increase</u>
Fashion Bedding and Utility Bedding	[***]
Bath	[***]
Furniture	[***]
Decorative Accessories	[***]
Outdoor Furniture	[***]

To the extent that any sub-category of any of the above Product Categories (as such sub-category is listed on Appendix 1) is added but the entire Product Category is not added, the Parties agree to negotiate in good faith an increase in the GMP that will be based on the relative net sales of such sub-category to the entire Product Category in the JCP Distribution Channels in the prior 3 fiscal years (such sub-category increase in the GMP, the "Sub-Category GMP Increase").

In addition, the Parties have discussed the possibility of granting JCP rights with respect to additional categories, including [***] The Parties agree to continue these discussions in good faith and to increase the GMP in an agreed-upon amount in the event of any such additional grant.

(d) Website Sales. In addition to the above amounts, JCP must pay Commissions to MSLO at a rate as follows for sales of Products on the Website: [***] of Net Sales on Products up to [***]; and [***] of Net Sales of Products over [***]. Commissions on Website sales will not be subject to the GMP and are payable to MSLO irrespective of whether the GMP has been earned out. For clarity, amounts paid pursuant to this Section will be in addition to amounts paid pursuant to Section 9(c). For further clarity, once the [***] threshold is met under this subsection, JCP must pay Commissions of [***] of Net Sales of Products for the remainder of the relevant Payment Period. For the avoidance of doubt, no Commission will be payable by JCP to MSLO for any products other than the Products.

(e) Design Fee. JCP will pay to MSLO the design fee (the "Design Fee") in equal quarterly installments beginning on February 1, 2012 and continuing throughout the Term. The Design Fee will be the greater of [***] of Net Sales for the prior Payment Period or [***] per Payment Period, except that for the period of time from the Effective Date until the commencement of Payment Period 1, the Design Fee will be [***] (the "Initial Design Fee"), which such Initial Design Fee will be payable in equal quarterly installments beginning on February 1, 2012. The Design Fee will compensate MSLO for its activities under Section 7 above but not for other services that may be provided by MSLO hereunder (including, without limitation, any Creative Services).

(f) Payment Due Dates. All payments will be payable in accordance with the Payment Schedule. Any payment due dates that fall on a weekend or national holiday will be due on or before the next business day.

(g) Marketing Amount. JCP commits to spend the Marketing Amounts as set forth herein. In Payment Period 1, such Marketing Amount will be [***]. In all subsequent Payment Periods, the Marketing Amount will be a minimum of [***] of the prior Payment Period's Net Sales. A minimum of [***] of each annual Marketing Amount will be spent on MSLO Media Properties during each Payment Period. All Marketing Amounts will be devoted solely to the Products and the MSLO Stores and not to other JCP products or services. JCP and MSLO will mutually agree on the marketing plan pursuant to which JCP will expend the Marketing Amounts.

10. REPORTS, RECORDKEEPING, AND AUDITS.

(a) Maintenance of Records. JCP will maintain true and accurate books of account and records in accordance with generally accepted accounting principles, consistently applied, covering all transactions relating to this Agreement. Such records will be maintained both during the Term and for a period of two (2) years thereafter (or for such longer period as may be required by law) for MSLO to perform any audits authorized by this Agreement.

(b) Quarterly Reports. Commissions and Design Fees (collectively, the "Payments") will be paid quarterly as set forth on the Payment Schedule (except for the Initial Design Fee, which is payable in accordance with Section 9(e) above). Every Payment will be accompanied

by a report substantially in the format set forth on Appendix 8 (individually, a "Quarterly Report," and collectively, the "Quarterly Reports") providing details on: (i) the quarter and year-to-date Net Sales and quantity, by department or subdivision, or by MSLO Store, as applicable, of all Products sold by JCP during the months to which such Quarterly Report relates; (ii) the calculation of the amount of Payment during the applicable reporting period; and (iv) any other information that may be mutually agreed to by the Parties. JCP will also provide a quarterly report providing details on the Customer Data in a form to be mutually agreed to by the Parties. JCP will also provide MSLO with remote access to sales data regarding the Products on its supplier website, including sales by store for each Product and each Product Category. Upon MSLO's reasonable request, and in any event within 60 days after the end of each Payment Period, JCP shall also deliver a report detailing JCP's advertising and promotional activities in connection with the Products, including the expenditure of the Marketing Amount.

(c) Customer Data. With respect to any personally identifiable information contained in the Customer Data (the "PII") that JCP furnishes, directly or indirectly, to MSLO, both Parties will implement and maintain safeguards, procedures and practices (consistent with generally accepted industry standards during the Term) designed to (i) ensure the security, confidentiality, and integrity of that PII, (ii) protect against any anticipated threats or hazards to the security or integrity of that PII, and (iii) protect against unauthorized access to, or unauthorized use, destruction, modification, or disclosure of, that PII. Each Party will promptly notify the other Party if it learns or reasonably suspects that the security, confidentiality, or integrity of any of that PII has been compromised or that there has been an unauthorized use or disclosure of any PII (a "Security Incident"), and the Parties will cooperate to determine the source of the Security Incident and will use their respective efforts to remedy the Security Incident as soon as practicable and in any event in a manner consistent with reasonably accepted industry standards at the time. The Parties will cooperate with each other in connection with the giving of any notice related to any Security Incident as may be required under applicable law. Each party will indemnify and hold harmless the other party from and against any claims, losses, damages, expenses, costs and proceedings, including without limitation costs associated with notifying end users, to the extent arising from or in connection with a Security Incident for which such Party is responsible by virtue of such Party having failed to comply with the standards set forth in this Section 10(c). The rights and obligations established by this Section 10(c) will survive and continue after the termination or expiration of this Agreement.

(d) Audit. Upon MSLO's reasonable request, JCP shall make such records and all other documents and materials in the possession or control of JCP, to the extent relevant to this Agreement and reasonably required to verify JCP's satisfaction of its obligations hereunder, available to MSLO or its duly authorized representatives, during normal business hours at JCP's principal offices. MSLO and its duly authorized representatives will have the right, but no more than once each year, upon reasonable notice and at all reasonable hours during normal business days, to examine such books of account and records and all other documents and materials in the possession or under the control of JCP that are reasonably related to JCP's payment obligations under this Agreement. The cost of such audit will be borne by MSLO. In the event of a discrepancy regarding amounts paid and those actually owed, the applicable party will promptly pay the amount of such overpayment or underpayment, as the case may be, to the other.

(e) Underpayment. In the event that JCP has underpaid MSLO pursuant to this Agreement or is delinquent in making any such payment, JCP shall promptly pay MSLO the aggregate difference between what MSLO should have been paid and what MSLO was paid, plus interest at a rate which is the prime rate per annum charged by Citibank, N.A., New York City on the first date of JCP's first delinquency, plus two (2) percentage points. This provision is in addition to, and not alternative to, MSLO's other remedies under this Agreement. Moreover, in the event that an audit reveals that the amount of any such underpayment equals or exceeds five percent (5%) of the amounts actually paid to MSLO during the period with respect to which the audit was conducted, JCP shall bear MSLO's reasonable costs of the audit, including, without limitation, any amounts payable to MSLO's outside auditors in connection therewith.

(f) Projections; Forecasts.

(i) The Parties acknowledge that JCP has provided MSLO with projections for Net Sales for the Term (the "Projections"). Throughout the Term, MSLO and JCP agree to develop strategies for maximizing Net Sales and increasing the Projections accordingly. Each Party agrees to use its commercially reasonable in rendering services under this Agreement to maximize Net Sales. Each Party acknowledges that it is the intent of each Party to maximize Net Sales under this Agreement.

(ii) Six months prior to the commencement of each Payment Period (after the first Payment Period), JCP shall provide MSLO with a forecast of the amounts that will be payable to MSLO, as well as the Net Sales (including all returns or allowances), with respect to each quarter of the subsequent Payment Period (the "Forecast"), which Forecast shall be based on JCP's good faith projections at such time. In the event JCP's Forecast changes materially for any Payment Period, either prior to or during such year, JCP will promptly inform MSLO of any such changes and the reasons therefore and, in any event, will update the Forecast at the beginning of each quarter.

11. STANDARDS OF QUALITY/QUALITY CONTROL.

(a) Standards of Quality. The Products and any expression by JCP, directly or indirectly, which by its nature conveys to others the existence of a relationship between JCP and the Trademarks or other Property or the Products (including, without limitation, the Exploitation Materials, including all packaging, labeling, fixtures, advertising, point of sale and sales promotion materials, and product literature (collectively, the "Trademark Use Materials")), will be of high quality, style, appearance, and distinctiveness and generally be consistent with the high quality standards established by MSLO, and will in all respects (including, without limitation, the manufacture, sale, marketing, and advertising) be in accordance with all of the terms and provisions of this Agreement, with all applicable laws, rules, and regulations, and with any approval decision made by MSLO. JCP will, at all times during the Term, have a program for (i) reviewing and testing the quality of the Products prior to the time at which they are approved for manufacture and sale, and (ii) for monitoring quality and safety on a continuing basis to make sure that the final Products are consistent with the initially approved samples, which program shall be, at a minimum, consistent with industry standards for products of design and quality comparable to those being sold hereunder. The cost of this program shall be the

responsibility of JCP. This program shall include rigorous testing of Products for safety, wear and tear, maintenance, use and other appropriate elements. At any time during the Term upon reasonable notice and during normal business hours, MSLO shall have the right to inspect the business operations of JCP or any vendors engaged by JCP to create, manufacture, or distribute any Products or Exploitation Materials, including without limitation any facilities at which Products or Exploitation Materials are manufactured, marketed, distributed or sold, to confirm that JCP is in compliance with the terms and conditions of this Agreement. Upon receipt of a notice from MSLO pursuant to this Agreement setting forth any quality deficiencies or any deviations from approved design or manufacturing specifications with respect to the Products or Exploitation Materials, or upon the discovery of any such deficiencies or deviations by JCP, JCP shall cause any material deficiencies or deviations to be remedied prior to the marketing, sale or distribution of the Products, or the distribution of the Exploitation Materials, as the case may be, or, if such material deficiencies or deviations may not be remedied, destroy such Products or Exploitation Materials. In the event material quality deficiencies or deviations from approved specifications are discovered after distribution or exploitation of Products or Exploitation Materials, as applicable, the Parties shall discuss the measures that must be taken, taking into account both the economic consequences and the impact on goodwill related to the Property and each of MSLO and JCP. Without limitation of the foregoing, upon MSLO's request, JCP shall promptly recall any Products containing any such material quality deficiencies or deviations at JCP's expense. JCP will meaningfully consult with MSLO over any recall not mandated by applicable law. JCP shall be responsible for the payment of Commissions on sales of damaged, defective or recalled Products, and MSLO need not refund any such payments to JCP.

(b) Manufacturing/Sourcing. JCP will ensure that each of its suppliers of Products agrees to the standards set forth in JCP's standard purchase contract which has previously been delivered to MSLO, and JCP will enforce such standards in the usual manner in which such standards are enforced in regard to other suppliers of JCP's private brand merchandise. Such standards are currently in and will remain in compliance with all laws applicable to the manufacturing of Products, including labor and employment, health and safety, customs and country of origin regulations, together with appropriate human rights standards and consideration as JCP may require from time to time.

12. PROTECTION AND ENFORCEMENT OF TRADEMARKS AND OTHER INTELLECTUAL PROPERTY. As a material inducement to MSLO to enter into this Agreement, and as a material part of the consideration to MSLO hereunder, JCP hereby agrees to the following:

(a) JCP will not use or permit the use of the Trademarks for any purpose or use other than the uses expressly permitted under this Agreement.

(b) JCP will cooperate fully and in good faith with MSLO for the purpose of securing and preserving MSLO's rights in and to the Trademarks. JCP will cause to appear on and in connection with the Products and the stores and advertising such reasonable statutory trademark notices and other notices proclaiming and identifying the Trademarks as property of MSLO as MSLO may deem appropriate from time to time.

(c) JCP will also display the Trademarks in such form as MSLO may reasonably request, on all product packaging, hangtags, branding and product signage, displays and materials, and in advertising and promotions for the Products. JCP will also display such statutory trademark notices in connection with the logo as MSLO may reasonably require. For clarity but without limitation, MSLO will have approval rights over all proposed uses of the Trademarks.

(d) JCP will, upon reasonable request, supply to MSLO enough specimens of advertisements, tags, labels, and other use of the Trademarks as may be required in connection with any of MSLO's Trademark applications or registrations in the Territory.

(e) JCP will, in connection with its duty to use the Trademarks so as to promote the continuing goodwill thereof, give reasonable attention and take any reasonably necessary action, consistent with its customer relations and other policies (which shall be, at a minimum, consistent with industry standards), to satisfy all legitimate customer complaints brought against JCP in connection with the Products in a manner consistent with high quality products that bear the Martha Stewart name.

(f) JCP will, (i) include appropriate copyright notices as required by MSLO in connection with the MSLO Content identifying MSLO as the copyright holder of the material, (ii) display all credits reasonably required by MSLO, and (iii) take such other action as is appropriate to protect the rights of the copyright owner of any of the MSLO Content.

(g) All intellectual property, including product designs, concepts, patterns, names, trademarks, copyrights, patents, trademarks, trade dress, and service marks and any and all goodwill associated with the foregoing (collectively, "Intellectual Property") developed by MSLO and incorporated into the Products or Exploitation Materials (the "MSLO Materials") will be owned by MSLO in MSLO's name, except that the MSLO Materials will not include any pre-existing elements owned by JCP and not developed specifically for the Products or the Exploitation Materials. All Intellectual Property developed by either JCP or JCP's suppliers during the Term and incorporated into the Products or Exploitation Materials will be owned jointly by the Parties and each will have the right to exploit such Intellectual Property independently at the termination or expiration of this Agreement without accounting to the other and without securing the other's prior permission. For clarity but without limitation, in no event may JCP exploit any MSLO Materials or Stewart Property after the expiration or termination of this Agreement, except as specifically provided herein in connection with the Sell-Off Period. For the avoidance of doubt, JCP acknowledges and agrees that it shall not acquire any ownership rights in or to any Intellectual Property that is a derivative of, or confusingly similar or substantially similar to the Property, regardless of whether JCP or JCP's suppliers developed or otherwise contributed to the creation of such Intellectual Property.

(h) All Trademark Use Materials and all Property will be used by JCP in a manner consistent with the trademark and copyright usage guidelines reasonably required by MSLO and also in a manner consistent with MSLO's approvals hereunder. JCP agrees to submit representative samples of Products and Exploitation Materials to MSLO to ensure that such materials are being produced consistent with MSLO's approvals hereunder. For clarity but without limitation, in no event will Products or Exploitation Materials be disseminated without MSLO's written approval. To the extent any of such material does not comply with the requirements of this Section and/or MSLO's approvals hereunder, JCP will correct such non-compliance with the next available production run of such materials.

(i) JCP will notify MSLO of any infringement or imitation by others of the Trademarks, copyrights, Property or MSLO Material if and when such become known to JCP. MSLO will have the sole right to determine whether or not any action will be taken on account of such infringement or imitations and will bear any cost or expense related to such action, and MSLO will have the sole right to the recovery of any damages in connection therewith. JCP agrees to cooperate and provide reasonable assistance in connection therewith.

(j) JCP acknowledges and confirms the validity and sole ownership by MSLO of the Property and the goodwill associated therewith, and agrees that all use by JCP of the Property shall inure solely to the benefit of MSLO and, as such, JCP shall not at any time acquire any rights in the Property by virtue of any use or exploitation JCP may make thereof. JCP agrees not to use any of the Property in the name of any of its Affiliates, and further agrees not to use in any manner any other word, trademark, trade name, symbol, design or the like which is similar to or which might possibly be confused with any of the Property.

(k) JCP agrees that it will not, directly or indirectly, dispute, challenge, contest, or otherwise impair the rights or interests of MSLO in the Trademarks, Property, copyrights in the MSLO Content, MSLO Materials, MSLO's brand or any other proprietary interest of MSLO or its Affiliates (including Martha Stewart), or otherwise knowingly take any action that would injure the image or reputation of MSLO or its Affiliates (including Martha Stewart) or any proprietary interest of MSLO or its Affiliates (including Martha Stewart) nor knowingly directly or indirectly assist any other person in doing any of the foregoing. JCP will execute any instrument MSLO will reasonably deem necessary or desirable to record or cancel JCP as a registered or authorized user of the Trademarks and the Property.

(l) Upon the expiration or termination of the Agreement, all rights expressly granted to JCP under this Agreement with respect to the Trademarks, Property, copyrights in the MSLO Content, MSLO Materials, MSLO's brand or any other proprietary interest of MSLO or its Affiliates MSLO shall automatically revert to MSLO for its sole use and disposition with no further obligation whatsoever to JCP or any third party, except as otherwise specifically provided herein.

13. **TERM; RENEWAL.** Unless otherwise stated herein, all periods referred to in this Agreement will be based on JCP's fiscal calendar. This Agreement will be effective as of the Effective Date and will continue through January 28, 2023 (the "Initial Term"), unless terminated sooner as provided herein. The parties will discuss in good faith a renewal of this Agreement (the "Renewal"), at least one year prior to expiration, on terms and conditions to be mutually agreed upon. References to "Term" will hereinafter include the Initial Term and any Renewals (subject to negotiated amendments), if applicable.

14. TERMINATION.

(a) Termination by Either Party for Material Default. Either Party will have the right to terminate this Agreement upon a material breach by the other Party of this Agreement (other than a breach caused by Force Majeure), which material breach continues and/or is not cured within a period of 30 days (or 10 days for non-payment) after the non-defaulting Party will have given written notice thereof to the defaulting Party. Failure to timely pay amounts due hereunder will constitute a material default.

(b) Termination for Launch Delay. In the event the Launch has not occurred within 90 days of the Launch Date, either Party will have the right to terminate this Agreement upon 30 days written notice to the other Party, provided that such failure to Launch is not due to: (i) a delay caused by the Party seeking to terminate; (ii) a Force Majeure event; or (iii) a Claim arising out of the 2006 Agreement.

(c) Effect of Termination. Upon the expiration or termination of this Agreement for any reason, JCP will cease to use the Property, Trademarks, MSLO Content, Exploitation Materials, MSLO Content and MSLO Materials in any way and will not manufacture or sell any additional units of the Products except in accordance with Section 14(d) below. MSLO and JCP will each remain liable for their respective obligations that accrued prior to the date of expiration or termination; provided, however that JCP will remain liable for the remaining pro-rata portion of the Guaranteed Minimum Payments for the current quarter of the Payment Period and for two (2) quarters thereafter in the event the Agreement is terminated as a result of JCP's material breach; and provided further, that this will not be MSLO's exclusive remedy for JCP's material breach, and MSLO will be entitled to any and all direct damages flowing from such breach. All payments due and owing to MSLO hereunder will become immediately due on the effective date of termination.

(d) Sell-Off Period. JCP agrees that from the date of expiration or termination of this Agreement, JCP will not place new orders for Products to be manufactured. In the event this Agreement expires or is terminated for MSLO's material breach only, JCP will have a period not to exceed six (6) months following the expiration or termination of this Agreement (the "Sell-Off Period") to sell off Products which are on hand, in transit, in production, or which JCP is contractually obligated to purchase, provided that JCP will pay MSLO the applicable amounts specified in Section 9, provide reporting with respect thereto on such sales, and only sell such Product through the Distribution Channels permitted hereunder. For clarity, the foregoing Sell-Off Period rights do not entitle JCP to use the Property, the Martha Stewart Marks or any Trademarks in identifying the MSLO Stores during the Sell-Off Period, which may not be "MSLO Stores" from 30 days and after such expiration or termination. JCP's applicable obligations hereunder with respect to the Products and otherwise will remain in effect during such Sell-Off Period. Any Products remaining after the Sell-Off Period will be donated by JCP to a charity of MSLO's choosing that is designated as a 501(c)(3) organization. During the last six months prior to the expiration of the Agreement, JCP shall not manufacture an excessive number of Products.

(e) Survival. The following provisions will survive any expiration or termination of this Agreement: 4(f), 10(a), 10(c), 10(d), 12 (but, in the case of 12(a)-(f) and (h)-(i), only during the Sell-Off Period, if any), 14(c)-(e), 16, 19, 20, 21, the Definitions Section and paragraph 7 of Appendix 3.

15. **ASSIGNMENTS AND SUBCONTRACTS**. Except as provided herein, neither this Agreement nor any of the rights or duties hereunder may be assigned, sub-licensed, encumbered, or otherwise transferred in any way by either Party, without the prior written consent and agreement of the other Party, such consent not to be unreasonably withheld, provided that, except as otherwise set forth below, either party will have the right to assign this Agreement in connection with a merger, consolidation or sale of all or substantially all of such Party's assets pursuant to which such assignee agrees in writing to be bound by the provisions hereof. Any assignment in contravention of the foregoing will be null and void. In the event of a permitted assignment or transfer by MSLO or any of its Affiliates of the Trademarks, the MSLO Content or any rights MSLO granted to JCP under this Agreement, such assignee or transferee shall be bound by all of the covenants of MSLO set forth in this Agreement, and, prior to any such assignment or transfer, MSLO shall and shall cause any such Affiliate to obtain a written agreement from any such assignee or transferee in which such assignee or transferee agrees to be bound by such covenants and expressly acknowledges that JCP is an intended third party beneficiary thereof with rights of direct enforcement. Any assignment or transfer of the Trademarks, the MSLO Content or any rights granted to JCP under this Agreement in violation of the foregoing shall be null and void ab initio.

16. **INDEMNIFICATION**

(a) Indemnification of MSLO. JCP will indemnify and hold harmless MSLO and its licensors, affiliates, directors, officers, employees, and agents (collectively, the "MSLO Parties") from and against all claims, damages, liabilities, losses, and other expenses, including, without limitation, reasonable attorneys' fees and costs, whether or not a lawsuit or other proceeding is filed ("Claims"), that arise out of or relate to: (i) the manufacture, packaging, distribution, promotion, sale, marketing, advertising, or other use of the Trademarks or the Products, except to the extent such liability results from a breach of this Agreement by MSLO; (ii) JCP's breach of any provision of this Agreement; (iii) JCP's business activities; (iv) JCP's transactions with third parties and/or the operation of its business; (v) any third party product liability claims arising out of sales of the Products; and/or (vi) JCP's negligent or willful acts or omissions. MSLO will promptly notify JCP in writing of any such actual or threatened Claims; provided, however, that any failure or delay of MSLO to do so will excuse JCP of its indemnification obligations hereunder only to the extent JCP is materially prejudiced by such failure or delay.

(b) Indemnification of JCP. MSLO will indemnify and hold harmless JCP and its affiliates, directors, officers, employees, and agents (collectively, the "JCP Parties") from and against all Claims that arise out of or relate to: (i) any third party claims challenging JCP's use of the Trademarks or the MSLO Content as authorized by this Agreement, including claims that such use violates or infringes any Intellectual Property right of any third party; or (ii) MSLO's breach of any provision of this Agreement. JCP will promptly notify MSLO in writing of any such actual or threatened Claims; provided, however, that any failure or delay of JCP to do so will excuse MSLO of its indemnification obligations hereunder only to the extent MSLO is materially prejudiced by such failure or delay.

(c) No Liability. Notwithstanding anything to the contrary in this Agreement, including any representations, warranties and covenants, as to any Claims based on the 2006 Agreement, JCP agrees that it will not seek and is not entitled to indemnification for monetary damages or attorneys' fees or otherwise, nor will it seek to cancel or terminate this Agreement due to any such Claims or the resolution or settlement thereof, nor seek any other damages or remedies at law or in equity or other relief against MSLO or any of its Affiliates under this section or otherwise. Also notwithstanding anything to the contrary in this Agreement, JCP further agrees that: (i) such Claims based on the 2006 Agreement will not constitute a breach of this Agreement; and (ii) JCP will not have a cause of action against MSLO or any of its Affiliates for any breach of a representation, warranty or covenant set forth in this Agreement as such representation, warranty or covenant relates to the 2006 Agreement. In the event that as a result of a Claim based on the 2006 Agreement, a court of competent jurisdiction enters an injunction that prevents the sale of Kitchen Products hereunder, JCP will be excused from its obligation to build MSLO Stores in accordance with Section 4 for as long as such injunction is in effect, provided that in such event, the Parties will discuss in good faith possible modifications to this Agreement that would enable them to proceed hereunder without being subject to an injunction, in a manner acceptable to both Parties. In addition, to the extent such injunction persists for a period of six months or more, the Parties agree to discuss in good faith (i) entering into an agreement pursuant to which the Parties will cooperate in the defense of any such Claim; and (ii) modifications to provisions of the Agreement affected by the injunction, including the GMP.

(d) Additional Procedures. The applicable party (the "Indemnifying Party") responsible for indemnification in respect of any Claim under clauses (a) and (b) above shall, at its sole cost and expense, assume the defense of such Claim by providing written notice thereof to the other party (the "Indemnified Party") within 15 days of the delivery of notice of such Claim by the Indemnified Party to the Indemnifying Party. If an Indemnifying Party assumes the defense of any Claim in accordance herewith, such Indemnifying Party shall be entitled to take all steps necessary in the settlement or defense thereof; provided, that no settlement or attempt at settlement of any such Claims will be made without the prior written consent of the Indemnified Party, which will not be unreasonably delayed or withheld, unless such settlement involves only the payment of money damages by the Indemnifying Party. The Indemnified Party may engage counsel of its choosing at its expense in connection with any Claim.

(e) Cooperation. The Parties agree to reasonably cooperate with each other in any regard in the investigation and defense of any Claim covered by this section.

(f) Limitations. Neither Party will be obligated to the other Party for indemnification under this section to the extent that a Claim is as a result of any acts of gross negligence, or willful misconduct on the part of the other Party or its licensors, affiliates, directors, officers, employees, and agents.

17. CHANGE OF CONTROL

(a) "Change of Control" shall mean the first occurrence of any of the following:

(i) the sale, in one or a series of related transactions, of all or substantially all of the assets of MSLO and its Affiliates, taken as a whole, to any of Macy's, Kohl's, Sears, Target, Wal-mart or Li & Fung ("Change of Control Outlets").

(ii) the liquidation or dissolution of MSLO;

(iii) the acquisition by any of the Change of Control Outlets, of beneficial ownership of more than 50% of the voting power of the outstanding common stock of MSLO; or

(iv) MSLO consolidates with, or merges with or into, any of the Change of Control Outlets, or any of the Change of Control Outlets consolidates with, or merges with or into, MSLO, in any such event pursuant to a transaction in which the outstanding voting stock of MSLO is converted into or exchanged for cash, securities or other property, other than any such transaction where the voting stock of MSLO outstanding immediately prior to such transaction is converted into or exchanged for voting stock of the surviving or transferee entity constituting a majority of the outstanding shares of such voting stock of such surviving or transferee entity immediately after giving effect to such transaction.

(b) In the event of a Change of Control of MSLO, JCP shall have the right to terminate this Agreement subject to the following termination procedures. MSLO shall notify JCP in writing of a Change of Control (or proposed Change of Control) no later than 5 days after the occurrence of a Change of Control, which such notice will specify the relevant Change of Control Outlet. (Such notice will be subject to the confidentiality obligations set forth in Section 21(h).) JCP shall have 30 days from receipt of such written notice to provide written notice to MSLO that it is exercising its right to terminate this Agreement pursuant to this section. Such termination will become effective 90 days from the occurrence of the Change in Control.

18. INSURANCE.

(a) Insurance Coverage. Both Parties will maintain, during the Term, insurance policies of the following kinds and amounts, or in the amounts required by law, whichever is greater:

(i) Worker's Compensation and Employer's Liability Insurance affording (A) protection under the Worker's Compensation Law of the state in which work is to be performed, or containing an all-states endorsement; and (B) Employer's Liability protection subject to a limit of not less than \$500,000; and

(ii) Commercial General and Product Liability Insurance, written on an occurrence basis, in amounts not less than (A) two million dollars (\$2,000,000) per person and in the annual aggregate for bodily injury, and (B) two million dollars (\$2,000,000) per person per occurrence and in the annual aggregate for property

damage, except that JCP will maintain Commercial General and Product Liability Insurance, written on an occurrence basis, in amounts not less than (A) twenty-five million dollars (\$25,000,000) per person and in the annual aggregate for bodily injury, and (B) twenty-five million dollars (\$25,000,000) per person per occurrence and in the annual aggregate for property damage,.

(b) Insurers. All insurance policies required to be maintained by the Parties will be procured from insurance companies rated at least A-VIII or better by the then-current edition of Best's Insurance Reports published by A.M. Best Co.

(c) Limited Effect. This Section 17 will in no way affect the indemnification, remedy, or warranty provisions set forth in this Agreement or a Party's rights or obligations thereunder.

(d) Self Insurance. So long as JCP maintains a net worth in excess of One Hundred Million Dollars (\$100,000,000.00), JCP may self-insure with respect to the insurance coverage described herein as long as JCP has adopted a bona fide and legally qualified plan of self insurance with respects to such coverage that is sufficient to provide for any losses that occur in connection with JCP's obligations covered by this Agreement

19. **REPRESENTATIONS AND WARRANTIES**. Each Party represents and warrants to the other that:

(a) It is authorized to enter into this Agreement; that this Agreement has been duly executed by an authorized signatory and constitutes the valid and binding obligation of such Party, enforceable in accordance with its terms; and that at all times during the Term, it will have the power and authority to perform all of its obligations under this Agreement and that the execution, delivery, and performance of this Agreement will not violate any agreement or instrument to which it is a party.

(b) This Agreement has been duly executed and delivered and constitutes a legal, valid, and binding obligation enforceable on such Party in accordance with its terms.

(c) Neither the execution and delivery of this Agreement or any of the instruments or agreements referred to herein, nor the consummation of any of the transactions contemplated hereby or thereby, nor the performance of this Agreement or any of the instruments or agreements referred to herein (i) requires the consent, approval, order, or authorization of, or registration with, or the giving of notice to, any third party or any governmental agency, public body, or authority, or (ii) will contravene any existing federal, state, or local law, rule, or regulation or any judgment, decree, or order or will contravene or result in any breach of, or constitute any default under, any agreement or instrument.

20. **PRODUCT DEFECTS**. As between MSLO and JCP, JCP assumes all liability whatsoever for customer service, defects or breach of warranty or any type of product liability claim whatsoever regarding Products. In the event that an ultimate purchaser of any Product manufactured or sold during the Term (including any sell-off period), or any other third party, claims such Product to be defective or in breach of any warranty or otherwise raises a product liability claim with respect to the Product, JCP shall assume all the obligations, liabilities, costs

and expenses relating in any manner to such Product, including, without limitation, any claimed defect or breach of warranty or other product liability claim; provided, however, that JCP shall promptly report to MSLO all claims and obligations that arise hereunder and provided further that the parties will work together and cooperate to minimize the customer relations and public relations impact of such claim/event.

21. GENERAL PROVISIONS.

(a) Notices. All notices and other communications required or permitted to be given under this Agreement will be in writing and will be delivered either by (i) personal delivery, (ii) registered or certified first-class mail, postage prepaid and return receipt requested, (iii) national commercial courier service, (iv) facsimile, or (v) electronic mail, in each case addressed as follows:

If to MSLO:

Martha Stewart Living Omnimedia, Inc.
601 West 26 Street
NY, NY 10001
Attn: General Counsel

If to JCP:

J.C. Penney Corporation, Inc.
6501 Legacy Drive
Plano, Texas 75024
Attn: GMM Home Division
Facsimile: (972) 431-1133

With a copy to:

J.C. Penney Corporation, Inc.
6501 Legacy Drive
Plano, Texas 75024
Attn: Legal Department
Facsimile: 972-431-1133
E-mail: trademarks@jcpenney.com

Notices or other communications will be deemed to have been delivered: (A) if personally, upon delivery; (B) if by mail, 5 days after deposit in the United States mail in the manner specified herein; (C) if by courier, the first business day after delivery to such courier; (D) if by facsimile, upon transmission and appropriate confirmation of transmittal; and (E) if by electronic mail, upon transmission. Either Party may change its address at any time by written notice to the other Party as set forth above.

(b) Entire Agreement. This Agreement sets forth the entire agreement and understanding between the Parties with respect to the subject matter hereof and supersedes any and all prior negotiations, discussions, and agreements relating to the subject matter hereof. This Agreement may not be orally changed, altered, modified, or amended in any respect except in a writing signed by duly authorized representatives of both Parties.

(c) Successors and Assigns. This Agreement will be binding upon and will insure to the benefit of the successors and permitted assigns of the Parties.

(d) Choice of Law; Forum; Jurisdiction. This Agreement will be governed by and construed in accordance with the laws of the State of New York, without giving effect to principles of conflicts of law thereof. THE PARTIES HEREBY AGREE THAT ANY ACTION OR PROCEEDING BETWEEN THE PARTIES OR THEIR SUCCESSORS ARISING OUT OF, CONCERNING, OR RELATED TO THIS AGREEMENT, ANY ANCILLARY AGREEMENT, OR ANY OTHER AGREEMENT, TRANSACTION, OR DEALING BETWEEN THE PARTIES WILL BE HEARD BY A JUDGE. ACCORDINGLY, THE PARTIES HEREBY IRREVOCABLY WAIVE THEIR RIGHT TO A TRIAL BY JURY IN ANY SUCH ACTION OR PROCEEDING. The parties agree that the federal or state courts located in New York County, New York will have exclusive jurisdiction over any disputes arising hereunder. Each Party irrevocably waives any objection to venue or any claim that the action is brought in an inconvenient forum.

(e) No Waiver. No waiver by either Party, whether express or implied, of any provision of this Agreement or of any breach or default of any Party, will constitute a continuing waiver of such provision or any other provisions of this Agreement, and no such waiver by any Party will prevent such Party from acting upon the same or any subsequent breach or default of the other Party of the same or any other provision of this Agreement.

(f) Disclaimer of Agency. Nothing in this Agreement will create a partnership or joint venture or establish the relationship of principal and agent or any other relationship of a similar nature between the Parties, and neither JCP nor MSLO will have the power to obligate or bind the other in any manner whatsoever.

(g) Counterparts; Signatures. This Agreement may be executed in any number of counterparts, each of which will be deemed an original, but all of which together will constitute one and the same instrument. Facsimile, .PDF, or other electronically transmitted signature pages will be deemed the same as originals.

(h) Confidential Information. Each Party (a "Disclosing Party"), acting in any capacity, may provide the other (the "Receiving Party") with, or allow access to, certain proprietary information not generally known to the public. Such information, whether or not marked as "confidential" or "proprietary," which is disclosed (orally or otherwise) to or obtained by the Receiving Party, will be known as "Confidential Information." The Receiving Party will not, at any time, disclose, permit the disclosure of, release, disseminate, or transfer, whether orally or by any other means, any part of the Disclosing Party's Confidential Information to any other person or entity, whether corporate, governmental, or individual, without the express written consent of the Disclosing Party, except as required by applicable law or in connection with legal process, in which case the Receiving Party will provide the Disclosing Party with reasonable opportunity to seek a protective order preventing such disclosure. Notwithstanding

the foregoing, disclosure is permitted to those persons who are involved in the final contract negotiations between the Parties. The provisions of this Section will not apply to any Confidential Information which: (i) at the time disclosed or obtained by the Receiving Party is in the public domain; (ii) after being disclosed or obtained by the Receiving Party becomes part of the public domain through no act, omission, or fault of either Party; (iii) was in the Receiving Party's possession at the time of disclosure or receipt and was not acquired, directly or indirectly, under an obligation of confidence; or (iv) is received by the Receiving Party after the time it was disclosed or obtained hereunder and was not acquired by the third party, directly or indirectly, from the Disclosing Party or from a director, officer, employee, or agent of the Disclosing Party under an obligation of confidence to the Disclosing Party. The Receiving Party will not use or permit access to any Confidential Information of the Disclosing Party except in connection with the purposes contemplated in this Agreement. This Section will continue in full force and effect for a period of three (3) years following the expiration or termination of this Agreement. Each Party agrees and acknowledges that the other Party will be irreparably harmed in the event of a breach by such Party any provision of this Section, and that, in the event of such breach, monetary damages would be inadequate compensation for such harm.

(i) Non-Disclosure. Neither Party will publicly disclose the existence of this Agreement or its terms without the prior written consent of the other Party, except as may be required under U.S. securities laws.

(j) U.S. Bankruptcy Code. The rights granted herein are and will be deemed to be, for purposes of Section 365(n) of the U.S. Bankruptcy Code, a grant of rights to "intellectual property" as defined under Section 101 of the U.S. Bankruptcy Code. The Parties agree that a reasonable amount of time within which to accept or reject this Agreement is within 90 days after the filing date of any bankruptcy petition.

(k) Press Release. Except to the extent required under applicable law or regulation, the Parties agree that all press releases or other publicity relating to the existence or substance of the business relationship contemplated herein shall be coordinated between the Parties and will not be released without mutual agreement, except as may be required under the federal securities laws.

(l) Severability. In the event that any provision of this Agreement becomes or is declared by a court of competent jurisdiction to be illegal, unenforceable or void, then such provision shall be interpreted in the manner that best reflects the apparent intentions of the Parties and yet negates the element that rendered such provision illegal, unenforceable or void, or, if such interpretation is impracticable or impossible, then this Agreement shall continue in full force and effect without such provision.

(m) Remedies Cumulative. The rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided at law or in equity.

(n) LIMITATION ON DAMAGES. EXCEPT FOR ANY JCP USE OF PROPERTY, AS DEFINED HEREIN, OR MSLO USE OF JCP TRADEMARKS AND LOGOS IN A MANNER INCONSISTENT WITH THE TERMS HEREOF, EXCEPT FOR ANY BREACH OF THE CONFIDENTIALITY PROVISIONS HEREOF, UNDER NO CIRCUMSTANCES AND UNDER NO LEGAL THEORY SHALL EITHER PARTY BE LIABLE TO THE OTHER PARTY FOR ANY INDIRECT, SPECIAL, INCIDENTAL, CONSEQUENTIAL, OR PUNITIVE DAMAGES OF ANY CHARACTER, INCLUDING, WITHOUT LIMITATION, DAMAGES FOR LOSS OF GOODWILL, LOST PROFITS OR LOST SALES, EVEN IF SUCH PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the Effective Date.

JCP:

J.C. PENNEY CORPORATION, INC.

By: /s/ Michael R. Francis

Name: Michael R. Francis

Title: President

MSLO:

MARTHA STEWART LIVING OMNIMEDIA, INC.

By: /s/ Daniel Taitz

Name: Daniel Taitz

Title: EVP, Chief Administrative Officer and General Counsel

APPENDIX 1

ADDITIONAL CATEGORIES

1. Fashion Bedding (open stock and sets)

- sheets
- pillowcases
- duvet covers
- comforters
- bedskirts
- bedspreads (quilted and other)
- night spreads
- quilts
- shams (quilted and other)
- decorative pillows (coordinated to bedding ensembles)
- coordinating window (for BIAB)
- bed sheers
- flannel bedding
- kids bedding
- baby bedding

2. Utility Bedding

- comforters(down and synthetic filled)
- duvets (down and synthetic filled)
- sleeping pillows (down and synthetic filled)
- mattress pads
- box spring covers
- feather beds
- blankets
- throws

3. Bath (open stock and sets)

- towels
- bathmats
- bath sheets
- body sheets

4. Shower Curtains

- shower curtain liners
- shower curtain hooks

5. Bath Accessories

6. Bathrobes, Bath Wraps, Slippers

7. **Beach Towels, Beach Totes**

8. **Outdoor Living**

- serveware
- plates
- picnic baskets
- trays
- utensils
- glassware
- lanterns/décor

9. **Decorative Accessories**

- frames
- candlesticks
- home fragrances
- wall art
- clocks

10. **Bridal / Gift** (upstairs)

- silver frames
- silver trays
- silver bowls
- silver accessory gifts
- alternative metal
- crystal

11. **Upholstered Furniture** (up to certain price points)

- chairs
- headboards / beds
- sofas
- ottomans

12. **Case Furniture** (up to certain price points)

- dressers
- dining tables
- accent tables
- benches
- beds
- hutches
- sideboards

APPENDIX 2

MAJOR PRODUCT CATEGORIES

CATEGORY

- 1. Kitchen*
- 2. Bedding**
- 3. Window***
- 4. Bath****
- 5. Furniture*****
- 6. Decorative Accessories
- 7. Outdoor Furniture
- 8. Christmas Décor*****

APPLICABLE

- [***]
- [***]
- [***]
- [***]
- [***]
- [***]
- [***]
- [***]

- * Includes all sub-categories set forth in Appendix 4.
- ** Includes all sub-categories set forth in paragraphs 1 and 2 in Appendix 1.
- *** Includes all sub-categories set forth in paragraphs 1 and 2 in Appendix 5.
- **** Includes all sub-categories set forth in paragraphs 3-7 in Appendix 1.
- ***** Includes all sub-categories set forth in paragraphs 11 and 12 in Appendix 1.
- ***** Includes all sub-categories set forth in paragraph 3 in Appendix 5.

[***] Confidential material redacted and filed separately with the Securities and Exchange Commission

APPENDIX 3

WEBSITE TERMS

1. **Website Development/Operation.** In accordance with the provisions of this Appendix, JCP will, at its sole cost and expense, develop and maintain the Website throughout the Term, including mobile and tablet applications. In addition, in accordance with the provisions of this Appendix and of Section 6(c), JCP will, at its sole cost and expense, develop applications for use in conjunction with any Future Technology Device utilized for the commerce applications which may be developed during the Term of this Agreement (the "Future Technology") for the sale, promotion, exploitation, marketing or any other similar commercial activities regarding the sale of Products on the Website. The Parties' objectives with respect to the Website and any other ecommerce applications are to promote the Martha Stewart brand in a manner consistent with the quality and prestige of such brand and to maximize the overall Net Sales of Products through all permitted Distribution Channels. To that end, JCP agrees that throughout the Term, it will offer for sale on the Website a commercially reasonable quantity and assortment of Products.
 - a. The tentative URL for such website will be www.marthastewartstore.com ("URL"). MSLO will be responsible for securing the rights to the URL.
 - b. MSLO will own the URL, but hereby agrees to cooperate with JCP to enable and allow JCP to exclusively operate the Website for the promotion and sale of Products. Subject to its obligations hereunder, JCP will exercise complete technical control over the Website at all times, subject only to MSLO's approvals as more fully set forth herein.
 - c. JCP will be solely responsible for all costs and expenses incurred in connection with developing, maintaining, and operating the Website, including, without limitation, all hardware, software and labor costs. The Website will operate in a manner consistent with the high quality of the Property and with the JCP Website, and in no event will the quality be lower than industry standards for websites with brands equivalent in quality and recognition to the Martha Stewart brand, including with respect to uptime, functionality and customer support.
 - d. Nothing contained herein will restrict JCP's rights to engage third parties to supply technical or other professional or specialized services for the Website, provided that JCP will be responsible for all such third parties and will secure all necessary rights from such parties for material created by such third parties.
 - e. As contemplated by Section 6(c) of the Agreement, all of the terms and conditions relating to any applications developed for use in conjunction with Future Technology Devices, including, without limitation, relating to the development, design, operation, quality and approvals thereof and the responsibility for the costs and expenses thereof, shall be consistent with the terms and conditions for such matters set forth herein with respect to the Website.

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2. **Merchandise.** The Parties will collaborate on the selection of the collection of Products for the Website, with the intention that there be a reasonably diverse selection of Products available on the Website. The Parties will use commercially reasonable efforts to make non-JCP sourced products recommended by MSLO available on the Website, provided that the Parties acknowledge that at the time of signing, JCP does not have the ability to conduct transactions in which it is not the "merchant of record," and JCP will not undertake any action or services in connection with the Website that would deem it a "Service Provider," as that term is defined in the Payment Card Industry Data Security Standard, which such standard currently appears at <https://www.pcisecuritystandards.org/>.
 3. **Quality:** JCP will collaborate with MSLO to create a website presentation consistent with the creative concepts supplied by MSLO and also consistent with the Exploitation Materials as to presentation and style. Each Party acknowledges and agrees that JCP will provide an experience consistent with the high quality of the Property. In addition, JCP will cause the photographs, illustrations and descriptions that JCP supplies to the Website to be consistent with the high quality of the Property. MSLO will supply or will facilitate the supply of the photographs, illustrations, descriptions and any legally required information for the non-JCP sourced Products.
 4. **Process:** The parties will collaborate to meet the following developmental milestones. The dates contained herein are goals; failure to strictly adhere to the dates herein will not be deemed a breach of this Agreement, provided that in all events, JCP will meet the Launch Date for the Website.
 - a. **Kick-Off Meeting:** The Parties will meet in December, 2011 to discuss the vision and scope of the Website.
 - b. **Requirements:** JCP will draft the technical requirements for the website relative to the defined scope and MSLO creative input. MSLO will also, at its option, provide input on desired functionality, (e.g., browsing, shopping, search capability, etc.) by March 31, 2012. (The "Requirements Phase")
 - c. **Design Phase:** MSLO will provide input on creative direction for the Website, including look and feel, provided that for clarity, all implementation will be the responsibility of JCP. This will occur by approximately June 30, 2012.
 - d. **Build:** JCP will commence build of the Website and any dependent integrations upon MSLO's written approval of the Website design, as more fully set forth in the approvals section below.
 - e. **Test:** The Parties will test the Website by January, 2013.
 - f. **Launch.** The Website will go live on the Launch Date.
 - g. **Approvals:** MSLO shall have the right to review and approve all aspects of the Website, including without limitation functionality, look and feel and any use of the Property thereon. In that regard, JCP agrees to provide MSLO with access to the Website at all stages of development of the Website for MSLO's review and approval. MSLO will not make any unilateral changes after it has approved a phase of the Website, unless the Parties mutually agree to the change. Such access will be provided sufficiently in advance of the Launch Date to allow time for revisions and re-submission to MSLO. In no event will the Website go live prior to MSLO's written approval. In addition, at all times after the Website goes live, JCP agrees to implement such reasonable revisions or improvements thereto as MSLO may request, and to otherwise collaborate with MSLO on the maintenance and operation of the Website as and when reasonably requested by MSLO.

-
5. **Privacy:** JCP will develop the privacy policy for the website consistent with all applicable laws, rules and regulations and otherwise in accordance with industry standards.
 6. **Personnel:** MSLO will at all times employ such competent and qualified personnel as are necessary to fulfill its obligations under this Appendix, which includes dedicated resources and a Website relationship manager who will have final decision making authority. JCP will at all times employ or subcontract such competent and qualified personnel as are necessary to fulfill its obligations under this Appendix .
 7. **Ownership:** JCP will own all rights in and to the Website except for any Property, Trademarks, the URL, MSLO Content, Stewart Property, Trademarks or any other material contributed by MSLO to the Website, all of which shall be owned by MSLO or its licensors (the "MSLO Website Materials"). The Parties will jointly own all Customer Data, and JCP agrees to execute any and all documentation necessary to effectuate MSLO's ownership therein. Each Party may use the Customer Data without the other's permission and without accounting to the other, both during and after the Term. Each Party agrees that its use of the Customer Data will be in accordance with the Website's privacy policy and with applicable law. JCP agrees to execute any and all documentation with Comscore that may be necessary to assign Website traffic to MSLO. Notwithstanding anything to the contrary herein, JCP agrees that upon expiration or termination of this Agreement, it will remove any and all MSLO branding and the MSLO Website Materials from the Website, and it will ensure that the look and feel that incorporates the signature MSLO touches of the Website is not used or otherwise replicated by JCP after the Term. By way of clarification but without limitation, JCP will not be required to remove or cease using any functionality of the Website. By way of further clarification and notwithstanding the foregoing, JCP may include such MSLO branding on the Website as will reasonably enable it to exercise its rights to sell off Products, as more fully set forth in Section 14(d).
 8. **Linking:** At all times during the Term: (i) JCP agrees to include a link in a prominent location on the JCP Website to the Website; and (ii) MSLO agrees to include a link in a prominent location on the home page of www.marthastewart.com to the Website.

APPENDIX 4

KITCHEN PRODUCT CATEGORIES

1. Gadgets
2. Cutlery/boards
3. Spices/spice sets/containers
4. Food Storage
 - refrigerator storage
 - canisters
 - pantry storage
5. Cookware (open stock and sets)
 - hard anodized
 - tri-ply
 - non-stick
6. ECI and porcelain cookware
7. Bakeware (open stock and sets)
 - baking sheets
 - cookie cutters
 - cake pans
 - Silpat
8. Kitchen textiles
 - mitts, pot holders
 - aprons
 - tea towels
 - dish towels
9. Table Linens
 - tablecloths
 - napkins
 - runners
 - chair covers
 - napkin rings
10. Dinnerware (open stock and sets) (all materials) (upstairs and downstairs)
 - dinner plates
 - salad plates
 - chargers
 - appetizer plates
 - serveware (pitchers, platters, bowls, etc.)
 - oven-to-table
 - figural cake stands
 - cake domes
 - flatware

11. Glassware (open stock and sets) (all materials)

drinking glasses
serveware
dinnerware

12. Barware (open stock and sets)

glasses
shakers
ice buckets/tongs
trays
bar utensils

APPENDIX 5

NON-EXCLUSIVE PRODUCT CATEGORIES

1. Soft Window
 - panels
 - valences
 - toppers
 - shades
 - tie-backs
 - sheers
2. Hard Window (excluding drapery hardware)
 - shades
 - blinds
 - shutters
3. Christmas Trim
 - trees
 - wreathes
 - lighting (indoor and outdoor)
 - ornaments
 - decorations (indoor and outdoor)
 - accessories

APPENDIX 6

PAYMENT SCHEDULE

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>
I Fiscal 2013	Q1	GMP	6/18/2013
		Design Fee	6/18/2013
	Q2	GMP	9/17/2013
		Design Fee	9/17/2013
	Q3	GMP	12/17/2013
		Design Fee	12/17/2013
	Q4	GMP	3/18/2014
		Design Fee	3/18/2014
		GMP Reconciliation	3/18/2014
		Design Fee Reconciliation	3/18/2014

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>	<u>Amount Due</u>
2	Q1	GMP	6/17/2014	
Fiscal 2014		Design Fee	6/17/2014	
	Q2	GMP	9/16/2014	
		Design Fee	9/16/2014	
	Q3	GMP	12/16/2014	
		Design Fee	12/16/2014	
	Q4	GMP	3/17/2015	
		Design Fee	3/17/2015	
		GMP Reconciliation	3/17/2015	
		Design Fee Reconciliation	3/17/2015	

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>	<u>Amount Due</u>
3	Q1	GMP	6/16/2015	
Fiscal 2015		Design Fee	6/16/2015	
	Q2	GMP	9/15/2015	
		Design Fee	9/15/2015	
	Q3	GMP	12/15/2015	
		Design Fee	12/15/2015	
	Q4	GMP	3/15/2016	
		Design Fee	3/15/2016	
		GMP Reconciliation	3/15/2016	
		Design Fee Reconciliation	3/15/2016	

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>	<u>Amount Due</u>
4	Q1	GMP	6/14/2016	
Fiscal 2016		Design Fee	6/14/2016	
	Q2	GMP	9/13/2016	
		Design Fee	9/13/2016	
	Q3	GMP	12/13/2016	
		Design Fee	12/13/2016	
	Q4	GMP	3/14/2017	
		Design Fee	3/14/2017	
		GMP Reconciliation	3/14/2017	
		Design Fee Reconciliation	3/14/2017	

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>	<u>Amount Due</u>
5	Q1	GMP	6/13/2017	
Fiscal 2017		Design Fee	6/13/2017	
	Q2	GMP	9/12/2017	
		Design Fee	9/12/2017	
	Q3	GMP	12/12/2017	
		Design Fee	12/12/2017	
	Q4	GMP	3/20/2018	
		Design Fee	3/20/2018	
		GMP Reconciliation	3/20/2018	
		Design Fee Reconciliation	3/20/2018	

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>	<u>Amount Due</u>
6	Q1	GMP	6/19/2018	
Fiscal 2018		Design Fee	6/19/2018	
	Q2	GMP	9/18/2018	
		Design Fee	9/18/2018	
	Q3	GMP	12/18/2018	
		Design Fee	12/18/2018	
	Q4	GMP	3/19/2019	
		Design Fee	3/19/2019	
		GMP Reconciliation	3/19/2019	
		Design Fee Reconciliation	3/19/2019	

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>	<u>Amount Due</u>
7	Q1	GMP	6/18/2019	
Fiscal 2019		Design Fee	6/18/2019	
	Q2	GMP	9/17/2019	
		Design Fee	9/17/2019	
	Q3	GMP	12/17/2019	
		Design Fee	12/17/2019	
	Q4	GMP	3/17/2020	
		Design Fee	3/17/2020	
		GMP Reconciliation	3/17/2020	
		Design Fee Reconciliation	3/17/2020	

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>	<u>Amount Due</u>
8	Q1	GMP	6/16/2020	
Fiscal 2020		Design Fee	6/16/2020	
	Q2	GMP	9/15/2020	
		Design Fee	9/15/2020	
	Q3	GMP	12/15/2020	
		Design Fee	12/15/2020	
	Q4	GMP	3/16/2021	
		Design Fee	3/16/2021	
		GMP Reconciliation	3/16/2021	
		Design Fee Reconciliation	3/16/2021	

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>	<u>Amount Due</u>
9	Q1	GMP	6/15/2021	
Fiscal 2021		Design Fee	6/15/2021	
	Q2	GMP	9/14/2021	
		Design Fee	9/14/2021	
	Q3	GMP	12/14/2021	
		Design Fee	12/14/2021	
	Q4	GMP	3/15/2022	
		Design Fee	3/15/2022	
		GMP Reconciliation	3/15/2022	
		Design Fee Reconciliation	3/15/2022	

<u>Payment Period</u>	<u>Fiscal Qtr</u>	<u>Type of Payment</u>	<u>Due Date</u>	<u>Amount Due</u>
10	Q1	GMP	6/14/2022	
Fiscal 2022		Design Fee	6/14/2022	
	Q2	GMP	9/13/2022	
		Design Fee	9/13/2022	
	Q3	GMP	12/13/2022	
		Design Fee	12/13/2022	
	Q4	GMP	3/21/2023	
		Design Fee	3/21/2023	
		GMP Reconciliation	3/21/2023	
		Design Fee Reconciliation	3/21/2023	

In addition to the foregoing, JCP will pay the Design Fees due prior to the first Payment Period in the time period specified in Section 9(e).

APPENDIX 7

PROHIBITED RETAIL OUTLETS

Warehouse Clubs

B.J.'s Warehouse Club
Costco
Sam's Club

Off Price

Burlington Coat Factory
Gabriel Brothers, Inc.
Marshalls
Nordstrom Rack
Ross Dress for Less
TJ Maxx
Value City
Other Off Price

Home Specialty Stores

Anna's Linens
Bath & Body Works
Bed Bath & Beyond
Bedbathhome.Com
Bedbathstore.Com
Bedding Experts
Blinds.com
Brookstone
Budgetblinds.com
Burlington Coat Factory
Christmas Tree Shop
Cost Plus World Market
Country Door
Decorating Den Interiors
Disney Store
Eddie Bauer
Garden Ridge
Great Indoors
Haband
Homevisions.Com
IKEA
Kitchen Store
L.L. Bean
Lands' End
Limited Too

LinenSource.Com
Mattress Firm
Mattress Giant
Nwf.Org
Old Navy
Old Tyme Pottery
Overstock.Com
Pier One
Pottery Barn
Select Comfort
Sharper Image
Shop At Home Tv
Sierra Trading Post
Sit 'n Sleep
Sleepy's
Smartbargains.Com
Smith & Noble
TextileShop.Com
The Sleep Train
Urban Outfitters

Mail Order

Beall's
Blair
Brylane
Domestications
Fingerhut Catalog
Lillian Vernon
Ltd. Commodities
Mail Order
Spiegel
The Company Store
The Lakeside Collection

Furniture

American Signature
Art Van
Ashley Furniture
Berkshire Hathaway Furniture Division
Bob's Discount Store
Ethan Allen*
Havertys
Lazy Boy
Raymour & Flanigan*
Rooms to Go
Slumberland

Department Stores/National Chains

Amazon.com

Belk

Bergner's

Bon-Ton

Boscov's

Carson Pirie Scott

Dillard's

Elder-Beerman

Gottschalks

Herberger's

Kohl's

Lord & Taylor

Nordstrom

Sears

Stage/ SSI

Younkers

* Except as permitted under Section 2(b)

APPENDIX 8

SAMPLE QUARTERLY FINANCIAL REPORT

First Amendment

This First Amendment, dated as of January 4, 2012 (the "Amendment 1" and the "Amendment Date," respectively), amends that certain agreement between Martha Stewart Living Omnimedia, Inc. ("MSLO") and J.C. Penney Corporation, Inc. ("JCP"), dated December 6, 2011 (the "Agreement"). Specifically, for good and valuable consideration, the sufficiency of which the parties do hereby acknowledge, the parties, by executing this Amendment 1, agree to amend the Agreement as follows:

1. Capitalized terms used in this Amendment 1 and not otherwise defined herein shall have the meaning provided in the Agreement.
2. In Section 9(e) of the Agreement, the reference to "Effective Date" will be replaced with "January 1, 2012," and the reference to "the commencement of Payment Period 1" will be replaced with "Feb. 2, 2013."
3. Except as specifically amended by this Amendment 1, the terms and provisions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, the parties herein have so agreed, effective as of the Amendment Date.

J.C. Penney Corporation, Inc.

By: /s/ Kathryn Burchett
Signature

Name: Kathryn Burchett

Its: DVP, Merchandise Strategy

Martha Stewart Living Omnimedia, Inc.

By: /s/ Daniel Taitz
Signature

Name: Daniel Taitz

Its: EVP, CAO and General Counsel

EXHIBIT 21

List of Subsidiaries

<u>Name</u>	<u>State of Incorporation</u>
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 6, 2012, 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, 2011.

/s/ Ernst & Young LLP
New York, New York
March 6, 2012

EXHIBIT 31.1

Certification

I, Lisa Gersh, 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 6, 2012

/s/ Lisa Gersh

President and Chief Operating Officer
(principal executive officer)

EXHIBIT 31.2

Certification

I, Kenneth P. West, 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 6, 2012

/s/ Kenneth P. West

Chief Financial Officer (principal financial officer)

EXHIBIT 32

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, 2011 (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 6, 2012

/s/ Lisa Gersh

Lisa Gersh

President and Chief Operating Officer

(principal executive officer)

Dated: March 6, 2012

/s/ Kenneth P. West

Kenneth P. West

Chief Financial Officer

(principal financial officer)