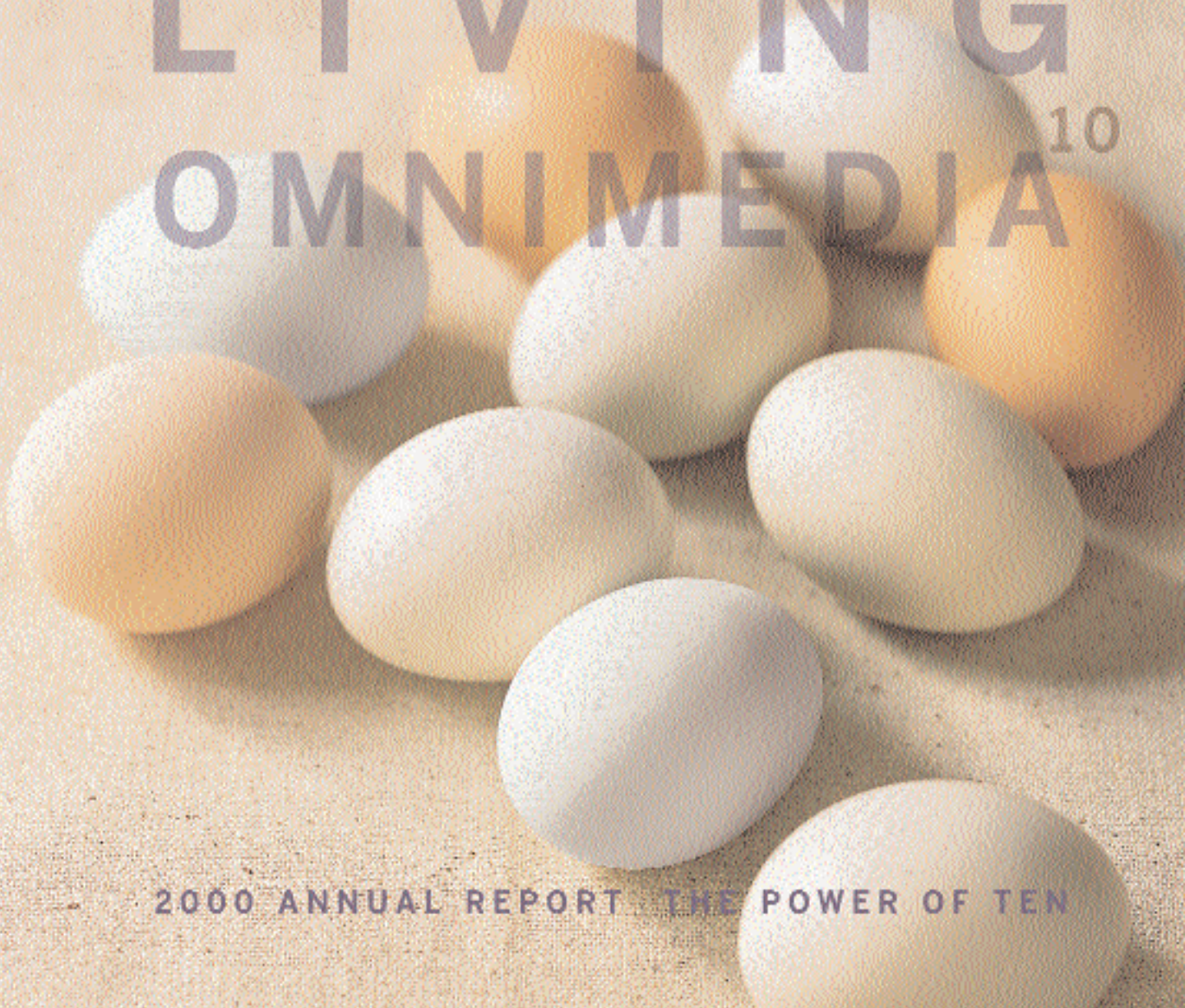


MARTHA STEWART LIVING OMNIMEDIA¹⁰



2000 ANNUAL REPORT THE POWER OF TEN

CORPORATE MANAGEMENT

Martha Stewart
Chairman and Chief Executive Officer

Sharon Patrick
President and Chief Operating Officer

Greg Blatt
EVP, General Counsel and Secretary

Dora Braschi Cardinale
EVP, Print Production

Stephen Drucker
EVP, Editorial Core and Editor-In-Chief

James Follo
EVP, Chief Financial Officer

Suzanne Sobel
EVP, Advertising Sales and Marketing, Publisher

Lauren Podlach Stanich
EVP, President, Publishing

Gael Towey
EVP, Creative Director

PRESS RELATIONS

Susan Magrino
Susan Magrino Agency
Director of Public Relations

Megan Stack
Communications Manager

BOARD OF DIRECTORS

Martha Stewart

Charlotte L. Beers
Chairman, J. Walter Thompson Worldwide

L. John Doerr
General Partner
Kleiner Perkins Caufield & Byers

Arthur C. Martinez
Retired Chairman and CEO
Sears, Roebuck and Co.

Sharon Patrick

Naomi O. Seligman
Co-Founder
Cassius Advisers

STOCK LISTING

Martha Stewart Living Omnimedia, Inc.
Class A Common Stock is listed on the
New York Stock Exchange. Ticker symbol: MSO

AUDITORS

Arthur Andersen LLP

SHAREHOLDER SERVICES / TRANSFER AGENT AND REGISTRAR

Mellon Investor Services LLC
85 Challenger Road Overpeck Center
Ridgefield Park, New Jersey 07660
(888)540-9883
E-mail: shrelations@mellon-investor.com

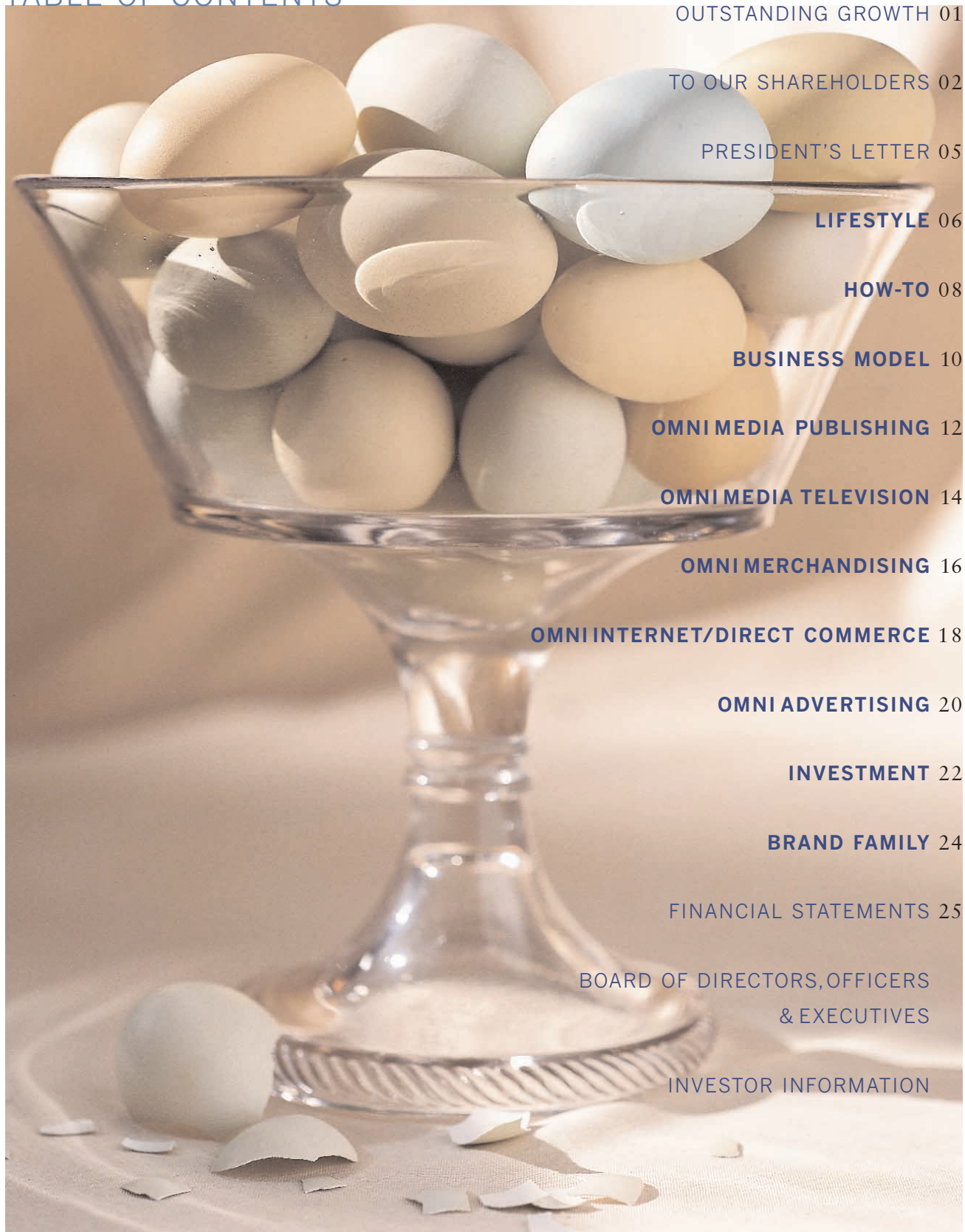
INVESTOR INFORMATION

Investor inquiries should be directed to the Investor Relations Department at Martha Stewart Living Omnimedia, Inc., 11 West 42nd Street, New York, New York 10036, (212)827-8455. A copy of the company's annual report filed with the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any shareholder upon request. This report, together with other company information, will be available on the Internet at marthastewart.com. Please direct e-mail inquiries to: ir@marthastewart.com.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held at our offices at The Starrett-Lehigh Building, 601 West 26th Street, 9th floor, New York, NY 10001 May 2, 2001 starting at 4:00 p.m.

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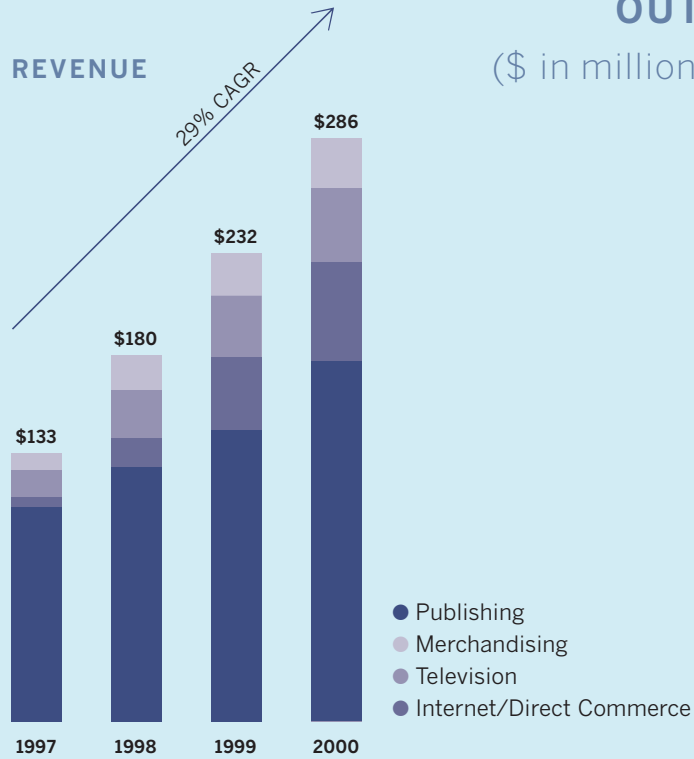
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OUTSTANDING GROWTH

(\$ in millions except per share data)



TO OUR SHAREHOLDERS

Martha Stewart Living Omnimedia has just completed its first full year as a public company (its tenth year since the launch of Martha Stewart Living magazine) with record results. We have now reported six consecutive quarters of earnings exceeding expectations, and our full-year 2000 revenue growth of 23% and earnings per share growth of 79% are affirmations of our brand's growing power. More importantly, we think the best is yet to come, as our growth prospects continue to be plentiful.

Our business expanded tremendously in 2000. We expanded our content library; we significantly increased our product offerings at mass market and online; we added Baby&Kids as a new core content area; and we continued our international expansion program.

In our Merchandising segment, we successfully launched a major new product line at mass market, the Martha Stewart Everyday Kitchen program, which includes dinnerware, flatware, beverage ware, cookware, bakeware, tools, and utensils, and we expanded the Martha Stewart Everyday Garden collection to include more than 1,300 garden and outdoor products, including an extensive assortment of seeds and live plants, that together create a complete system of gardening. We added a new line of ceiling paints to our Martha Stewart Everyday Colors collection and a fourth collection of decorative fabrics to our Martha Stewart Home collection in the specialty channel.

In our Publishing segment, Martha Stewart Living magazine celebrated its tenth anniversary with the first January publication ever—an issue devoted to the best of the past decade. This January issue was important for two reasons: It marked the beginning of our move to a twelve-issue frequency, to be completed this year with the publication of our first August issue, and it was an opportunity for us to share our thanks for the support we have been given by donating a portion of the advertising proceeds to three worthy charities: Campaign for America's Children, Help's Mentoring USA, and The Children's Hearing Institute.

Additionally, the first special issue of Martha Stewart Baby was published in March, followed by a second issue in October, each devoted to the essentials of caring for a child from birth up to the third birthday. Both were great successes. We also published another special issue, Martha Stewart Holiday, focused on Halloween, in September. This issue was our most successful special issue ever, with newsstand sales of about 430,000 copies. As a result, we intend to continue to develop the Martha Stewart Holiday series.

In our Television segment, our "Martha Stewart Living" program won its sixth Emmy Award, for Outstanding Service Show. Additionally, "From Martha's Kitchen," our compilation program airing domestically on The Food Network, debuted in Canada, and Martha Stewart television programming began airing in Brazil and Japan.

In our Internet/Direct Commerce segment, we have continued to build traffic and increase product sales and advertising and royalty revenues through the introduction of desirable and original new merchandise offerings and exciting new features like our Recipe Finder, our Encyclopedia of Plants, and Marthascards, our online greeting/holiday card service.

To keep up with the growth in our businesses, we significantly expanded our physical operations with the build-out of 150,000 square feet of studio, prop warehouse, and



office facilities at the Starrett-Lehigh Building in Manhattan. This space allows employees from our Merchandising, Internet/Direct Commerce, and Publishing segments to collaboratively create content and design products in a beautiful, sun-filled, and open environment. Combined with our state-of-the-art television studio in Westport, Connecticut, and our corporate offices in midtown Manhattan, this space should enable us to accommodate projected headcount growth; we hired more than 140 people in 2000 and now have more than 570 employees.

Some of the business highlights of the year include:

- Achieved record revenue of \$286 million, EBITDA of \$41 million, and earnings per share of \$0.43.
- Ended year with strong balance sheet with \$127 million in cash, \$196 million in shareholders' equity, and no debt.
- Achieved record ad pages in both Martha Stewart Living and Martha Stewart Weddings, and record newsstand sales.
- Published our tenth-anniversary cookbook, which was on the New York Times' and the Los Angeles Times' cookbook bestseller lists.
- Martha Stewart Living magazine named to ADWEEK magazine's hot list for the fifth year in a row.
- Martha Stewart branded merchandise achieved retail sales in excess of \$1.3 billion.
- More than doubled our total buyer file for Internet/Direct Commerce in 2000.

Our prospects continue to be strong for 2001 and beyond as we continue to build on the sturdy foundation our brand has established in the marketplace and develop new products that fit within, or expand, our core areas of expertise.

While there has recently been a general softening in the economy, we believe that MSO is positioned for another record year. We are a well-established, diversified, and financially strong how-to media, content, and commerce company with an established record of consistent success. Our brand is stronger than ever, and our target markets are large and growing.

In our Publishing segment, we intend to grow our presence in the Baby & Kids market by increasing our frequency of publication from two issues to four issues, and we will increase our special-issue offerings in the fall with a technology issue and another holiday title. In March we will custom-publish a Martha Stewart Everyday Garden magazine that will be mailed to four million of Kmart's best customers. This publication focuses on our extensive collection of gardening products available exclusively at Kmart. In addition, the magazine features products from our other Martha Stewart Everyday product lines.

In our Television segment, we will continue to create high-quality, original how-to programming for the "Martha Stewart Living" show, and to develop new programming utilizing both new and repurposed material. Additionally, we will continue to seek new sources of revenue through increased international expansion.

In our Merchandising segment, we will expand our Martha Stewart Everyday line to include products from our Keeping and Home (decorating) categories. In 2001 we

will also develop additional merchandising programs for the specialty channel of retail distribution.

In our Internet/Direct Commerce segment, we will increase our assortment of edited, proprietary product offerings and expand our content library, which now includes more than 8,000 pages of information. We will complete the re-architecture of the popular marthastewart.com site by the end of the year to enable us to integrate our content and commerce offerings seamlessly, leading to higher revenues and increased profitability.

Recently, our Board grew stronger with the addition of Arthur Martinez, the former Chairman of the Board of Directors and CEO of Sears. His extensive background in the retail industry will provide a valuable perspective to MSO, and his contribution, along with that of the rest of the Board and management, will ensure that we realize our goal of being *the* source of information and related products for the homemaker.

I want to thank each of you personally for a really wonderful and amazing ten years of Martha Stewart Living and a great 2000 for MSO!

Our most recent survey indicates that there are more than ten million of you reading each issue. Please accept my gratitude for your loyalty, and for growing with us over the past ten years.

There are more than two million of you watching our programs in the U.S., Canada, Japan, and Brazil. Thank you for your enthusiasm and your commitment to our alternative type of family programming.

To all of you who read our “askMartha” columns, which appear in more than 230 North American newspapers, thank you.

To the one million of you who listen daily to our “askMartha” radio segments, which air on more than 280 stations, thank you for your enthusiasm and support.

To those of you who enjoy our recipes, menus, and instructions for good living via our many books, thank you.

And thank you, our Internet users, who regularly access information and product offerings via marthastewart.com, contributing to more than 147 million page views last year alone!

And to all of you at Martha Stewart Living Omnimedia, who work so hard and are so dedicated to creating the information and inspiration and business structure that constitute our publications, television shows, merchandise, and website, the warmest of thanks for a year of beautiful work and extraordinary effort. I know of no other group of people as productive, creative, and dynamic as our employees.

Cordially,

MARTHA STEWART

Chairman & Chief Executive Officer



PRESIDENT'S LETTER



The Martha Stewart brand embodies everyday living with style. One part education and one part inspiration, we put the “art” into domestic arts with trusted authority. We believe that it takes strong and visionary leadership, a highly energetic team of creative and managerial talent, and an indomitable entrepreneurial spirit to challenge convention and to grow a brand that generates instant recognition, demand, and sustainable shareholder value. And, you have to break a few eggs—ten to be exact.*

In short, at MSO we have developed ten strategic and operational tenets that we believe underpin the power of our businesses and give rise to MSO “to the power of 10.” We love that the number of tenets coincidentally corresponds to our ten years of operation since the founding of Martha Stewart Living magazine in 1990. Taken together, our ten tenets drove our success in 2000 and will continue to enable us to touch people’s lives in new and special ways. These tenets are not only guiding principles, but also essential strategic and institutional elements that have enabled us to teach and empower our consumers in a fulfilling and profitable manner.

Given the importance of these tenets to the fabric of our company and its performance, we would like to present our 2000 results in this context on the pages that follow. We hope that you find this information illuminating and that you learn something new and useful about our company. We assure you that in 2001 we will be focused strategically and operationally on delivering similarly excellent results.

Sincerely,

SHARON PATRICK

President & Chief Operating Officer



** Preferably eggs from Martha’s Araucana and Ameraucana chickens, shown above, whose colors inspire the company’s color palettes and paint and thus this annual report.*



BABY



WEDDINGS



HOME



KEEPING



HOLIDAYS



GARDENING



CRAFTS

COOKING &
ENTERTAINING



LIFESTYLE

we believe improving one's lifestyle is a valuable pursuit



Pictured above the first edition of "Entertaining" published in 1982 and the latest edition published in 1998. Collectively they sold more than 600,000 copies, demonstrating the evergreen nature of our content.

We pioneered the lifestyle category. In 1982, Martha Stewart published her first book, "Entertaining"—a landmark volume, wholly devoted to entertaining in the home. With its publication, we began to combine what had been distinct and relatively small media niches—cooking, gardening, entertaining, crafts, and holidays, into one single new powerhouse category: LIFESTYLE. We believe that the pursuit of lifestyle leading to a deeper relationship with one's family and home is a serious creative and educational pursuit. We have built our entire business around this principle in eight core content areas that today collectively comprise Lifestyle:

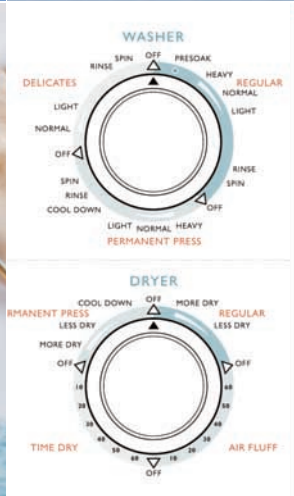
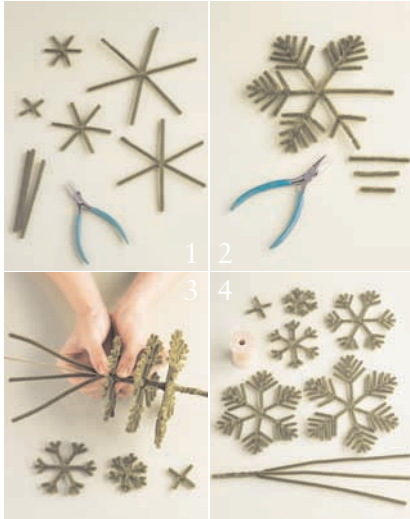
- Home: decorating, collecting, and renovating.
- Cooking & Entertaining: recipes, techniques, and indoor and outdoor entertaining.
- Gardening: planting, landscape design, and outdoor living.
- Crafts: how-to projects and similar family activities and an appreciation of the natural world.
- Holidays: celebrating special days and special occasions.
- Keeping: homekeeping, organizing, petkeeping, clotheskeeping, restoring, and other types of domestic maintenance.
- Weddings: all aspects of planning and celebrating a wedding.
- Baby & Kids: cooking, decorating, crafts, and other projects and celebrations surrounding infants and children.

From these content areas, we have developed the following asset library: over 9,000 magazine editorial pages, over 3,000 television segments, over 5,000 merchandise SKUs, over 4,000 book pages, over 400 newspaper columns, and over 750 radio segments—all devoted to Lifestyle. Accomplishments in Lifestyle in 2000 include:

- the successful launch of our newest core content area, Baby & Kids, with baby-related merchandise and two issues of a new special-issue magazine, Martha Stewart Baby. The addition of this new area not only expands the scope of our core content expertise, but also provides MSO with broader life-cycle reach.
- based on the success of 1998's Clotheskeeping special issue, the extension of the Keeping category into merchandise and the commencement of work on a Keeping book to be published in 2002.
- the extension of the Cooking and Entertaining core content area through a new CD partnership with Rhino Records that calls for us to design entertainment events and collateral how-to materials packaged around CD audio tracks for sale in retail record stores and in Martha by Mail.

ESTIMATING CHAIR YARDAGE

 <i>Linen Chair</i> 2 1/2 yards	 <i>Dining Chair</i> 1 1/2 yards	 <i>Arm Chair</i> 1 1/2 yards
 <i>Dresser Chair</i> 4 yards	 <i>Slipper Chair</i> 6 yards	 <i>Ottoman</i> 2 1/2 yards



DEMYSTIFY
six minutes is
says Carolyn
Home Appli
Regular cycle
spins at high
eral, making
with cold wa
permanent-p
when they're
icates cycle i
and spins slo
Using hot
dirty, colorfa
more quickly
Cold water (b
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them to dry,
reduce wrink
pillows, or cl



HOW-TO²

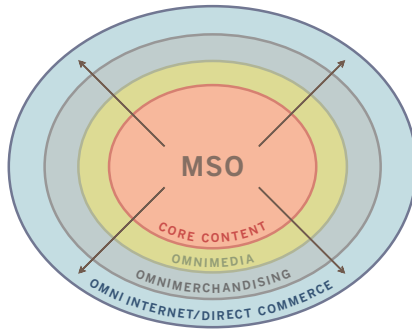
we inspire consumers by providing original, useful, and trusted information

We are pioneering a new level of quality and sophistication in original “how-to” for the home. We are the leading creator of original how-to content for homemakers and are dedicated to providing them with the resources that will enable them to raise the quality of living in and around their homes. We do not report on lifestyle developments and trends, we painstakingly create them. All of our editorial information and how-to ideas are researched and developed by our creative experts. The original and creative nature of our information is a major driver of brand power and customer loyalty. Talented creative experts in each of our eight core content areas continuously research and develop new and exciting ideas that support the high quality, usefulness, unique look, point of view, and sustainability of our brand. Once these ideas have been researched, our writers, art directors, and stylists work together to present projects and ideas both textually and visually, so that our words and pictures integrate seamlessly into a step-by-step presentation of how to get a particular job done. 2000 highlights include:

- the growth of our energetic team of creative experts—editors, art directors, designers, and craftspeople—from 135 to 179.
- the addition of the following content to our asset library by our creative teams: over 1,200 original television segments, over 1,000 editorial pages (including over 260 food-related pages, over 200 home-related pages, over 180 garden-related pages, over 180 keeping-related pages, over 90 crafts pages, over 500 weddings-related pages, and over 180 baby-related pages), over 650 new product designs, over 100 newspaper columns, and over 250 radio segments.
- the addition of more than 1,000 original recipes to our asset base. In addition, 1,200 of our best recipes from the first decade of the Martha Stewart Living magazine were culled from the asset library and published as “The Martha Stewart Living Cookbook,” which made both the New York Times’ and Los Angeles Times’ cookbook bestseller lists. This beautiful volume of original recipes was a major step in our mission to keep home-cooking traditions alive.

BUSINESS MODEL

we maximize synergies and leverage talent and investment across multiple platforms



We created the “omni” business model. Our powerful business model fully leverages and exploits the synergy among our core content areas. At the center of our model are our eight core content areas, producing our impeccably researched how-to information. We then leverage the cost of content research and development across our three distribution platforms—Omnimedia (Publishing and Television segments), Omnimerchandising, and Omni Internet/Direct Commerce—for superior economics. Through our Omnimedia platform we distribute and cross promote our how-to information to the widest possible audience to teach, to inspire, and to generate demand. The Omnimerchandising platform fulfills the demand generated by our how-to content with useful and innovative merchandise that enables our consumers to pursue lifestyle improvements. Finally, the Omni Internet/Direct Commerce platform enables us to further leverage our content and commerce capabilities at incremental production cost to create an interactive medium aimed at our highly loyal core audience.

In 2000, our powerful business model drove excellent profitability and growth. Our revenues grew 23% from 1999 to 2000 to \$286 million, and EBITDA grew 41% to \$41 million.

Developments in 2000 related to the business model include:

- the highly successful “omni” launch of Halloween content and related merchandise, including a special Martha Stewart Holiday magazine devoted to Halloween, Halloween television programming, the CD “Martha Stewart Living Spooky Scary Sounds for Halloween,” a special Halloween section in our Martha by Mail catalog, and a special Halloween microsite on marthastewart.com with audio and visual features. As a result of the coordination of the themed launch, our website witnessed the highest conversion rate of the year, increased impressions, and a larger buyer file from which we can prospect in the future. The magazine sold over 430,000 copies at newsstand, our television and publishing group sold advertising spots and strengthened our brand's bond with children, and we introduced our CD business—all from the same body of creative research for maximum profitability.
- the development of merchandise for the mass-market launch of our Martha Stewart Everyday Kitchen line utilized expertise acquired over many years of developing Cooking and Entertaining content for Television and Publishing.
- the renewal of our agreements with Westwood One for distribution of our askMartha radio program and with the New York Times Syndicate for distribution of our askMartha newspaper columns allows us to continue to distribute highest-quality content through different media and formats with superior economics.



With the success of the first two Martha Stewart Baby issues in 2000, we are extending these specials to four in 2001, with both Baby and Kids-themed issues.



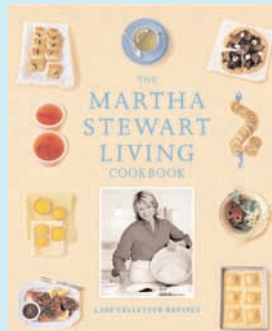
The September issue of Martha Stewart Living was devoted to the decorating category from our Home core and featured over 150 pages of editorial content—our largest magazine ever.



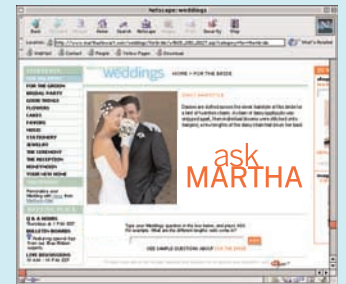
The Weddings core published its largest issue of Martha Stewart Weddings to date with the Winter 2001 Weddings issue and created four issues filled with glamorous ideas for all types of nuptial affairs.



Our two newspaper columns—askMartha and askMartha weddings—are syndicated to over 230 newspapers that reach more than 20 million people weekly.



The Martha Stewart Living Cookbook celebrates the tenth anniversary of Martha Stewart Living magazine with over 1,200 recipes from the 10 years of the magazine. This specially designed volume is a major step in our mission to keep home-cooking traditions alive.



The Weddings area of marthastewart.com pioneered an exclusive interactive question-and-answer feature called askMartha, which provides access to our vast archive of weddings information. Search capabilities have now been expanded to other areas of the site.



Our newest Christmas book, Parties and Projects for the Holidays, marks our fourth book in this popular annual series.



Gardening 101, published in February, is the seventeenth book in The Best of Martha Stewart Living series and offers expert advice from the Martha Stewart Living editors.



The October issue of Martha Stewart Living introduced a new column titled “Entertaining Is Fun” from long-time contributing editor Ina Garten, owner of Barefoot Contessa in East Hampton, New York.

OMNIMEDIA PUBLISHING

we grow through spin-off publications and extensions



We pioneered the extension of a single brand across multiple publishing vehicles. Our publishing segment includes the magazines Martha Stewart Living, Martha Stewart Weddings, and an ongoing special-issue schedule, including Martha Stewart Baby, published twice in 2000; more than thirty books; several continuity programs; and our syndicated askMartha newspaper column and radio program. Each vehicle is distinct, but each conveys similar high-quality information with the trusted authority of the Martha Stewart brand. We are indifferent to how our audiences choose to learn. Our goal is to be readily available to them through their medium of choice so that we can educate and inspire them and generate demand for our ideas, products, and services—all with the goal of positively affecting people’s lives.

2000 was a banner year for our Publishing segment. Revenues increased 23% to \$179 million, representing 63% of total revenues. EBITDA grew 37% to \$66 million. Other important accomplishments included appointing a newly created President of Publishing, Lauren Stanich, and growing the segment through expansions and spin-off publications. Highlights from 2000 include:

- the sale of a record 1,928 ad pages in Martha Stewart Living magazine, up 24% from 1999.
- the increase in frequency of our flagship magazine Martha Stewart Living to eleven issues per year, beginning with the January 2001 issue, our tenth anniversary issue. The magazine has delivered an average circulation of more than 2.3 million per issue for the past three years, with an overall readership of over 10 million per issue, and we have exceeded our rate base with every issue since raising it to 2.1 million in 1998 (on January 1, 2001, we raised the rate base to 2.15 million).
- the sale of more than 300,000 copies of Martha Stewart’s Hors d’Oeuvres Handbook, which won the International Association of Culinary Professionals Award for Best Cookbook.



SEGUNDA
Faz-tudo
PROGRAMA MARTHA STEWART
 GNT - 17H30

Para quem deseja adotar um estilo de vida prático sem abrir mão do bom gosto e do conforto, Martha Stewart prepara comidas gostosas e pratos elaborados, mas também é capaz de tratar de assuntos domésticos mais áridos, como dar um belo jeito no jardim da casa, que precisa de um gramado novo e de plantas sofisticadas.



Martha Stewart with Nobu Matsuhisa

from **Martha's KITCHEN**
 On Food Network
 Weeknights: 6:30 pm and 2 am est
 Weekends: Saturday at 12 noon and 2 am est
 Sunday at 12 noon and 1 am est

food
 NETWORK
 foodtv.com

If you do not receive Food Network, call your local cable operator or satellite dealer for details.



"Programa Martha Stewart" is the 1999/2000 season of Martha Stewart Living fully dubbed into Portuguese, which launched on GloboSat's lifestyle channel GNT in June 2000.

楽しむ、見つける、わたしが広がる



In October 2000, Martha Stewart programming entered the Japanese market, where it airs on the women-oriented cable channel LaLa TV.



米国の主婦のカリスマ マーサの番組が上陸

B Ch.748 LaLa Europeが推薦する10月の番組は「マーサ・ステュワート・リビング」。アメリカの主婦にとってカリスマ的存在のマーサは、「最も影響力の強いアメリカ人100人」に選ばれたほどの人気者。料理、ケーキ作り、ガーデニング、おもてなし、家具の修理、庭の垣根作りに至るまで、ちょっとした工夫でライフスタイルを充実させようという彼女のアイデアがウケている。

マーサが本格的に登場するのは、当番組が初めてというだけに要チェック。彼女ならではのライフスタイルは、何気ない日常にきっと夢を与えてくれる。



Martha Stewart programming airs on three of Alliance Atlantis' Canadian cable networks, LifeNetwork, HGTV and, since September 2000, on Food Network Canada.



"From Martha's Kitchen" is in its second successful season and airs 14 times each week.

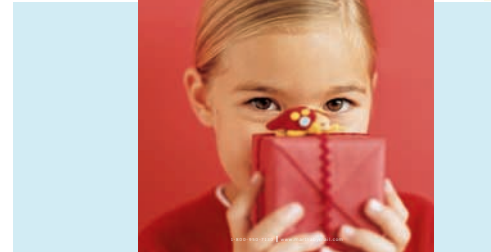
OMNIMEDIA TELEVISION

we take service shows where they have never been before

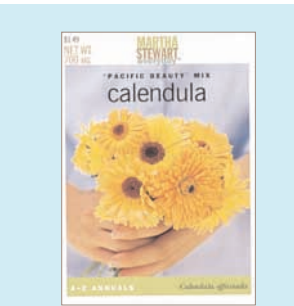
We pioneered educational service shows on prime network television. Our Television segment produces all of our original television programming and is a primary driver of brand awareness and a significant component of our Omnimedia platform. In television we are truly omni-airing in the day and at night, on weekdays and on weekends, reaching the widest possible audience. Daily, our production team translates our core content how-to ideas into premium-quality “service show” programming that is widely syndicated to network and cable affiliates by KingWorld Productions and licensed on cable by MSO to the Food Network in the United States and to Life Network and the Food Network in Canada.

Our programs set the standards for high-quality, educational television that is as entertaining as it is useful. This year, “Martha Stewart Living,” our daily one-hour network program, began its eighth season, airing in 149 markets covering over 88% of U.S. households, including 12 of the 16 CBS-owned and operated stations. On average, 1.6 million households watch the show every day. Revenue increased 6% to \$32 million in 2000, representing 11% of revenues, and EBITDA grew 21% to \$7.6 million. Other highlights in 2000 included:

- “Martha Stewart Living’s” sixth Emmy Award, for Outstanding Service Show, and its renewal for a ninth season.
- the broadcast of our holiday primetime special, “Martha Stewart’s Christmas Dream,” on CBS on December 6, watched by 9.4 million viewers.
- the continuation of our international expansion, with dubbed versions of “Martha Stewart Living” appearing daily in both Brazil and Japan under multi-year agreements; and the introduction of “From Martha’s Kitchen,” our one-hour cooking show, in Canada on Canada’s Food Network. With this expansion, we received almost 6% of our television-segment revenues from international sources.



MERCHANDISE PYRAMID We offer the best available product at multiple price points and multiple distribution channels to provide people from all income levels the opportunity to translate their dreams into actions the “Martha Stewart brand way.”



OMNIMERCHANDISING

we bring the brand to ALL retail channels

We turn dreamers into doers. Most of those in our Omnimedia audience do not want to just “watch Martha” or “read Martha,” they want to “do what Martha does” in their own ways in their own homes. We therefore strive to reach the widest possible audience with our merchandise, tools, and other resources to enable our consumers to pursue our how-to projects on their own. We do so through our Omnimerchandising strategy. We develop long-term agreements with large retailers and manufacturers to provide broad, branded product assortments from our various content areas at multiple price points and multiple distribution channels up and down the “retail pyramid,” from the broad mass-market base, up to the national chains and specialty retail stores, and on to the high-end retail channel. To date, we have rolled out mass-market programs of basic essentials for five of our core areas under the Martha Stewart Everyday brand, and have launched fabric and paint programs at the national chain/specialty level and high-end retail level under our Martha Stewart Home and Martha’s Fine Paints brand names. Branded collections allow MSO to move the consumer from trusted personality to trusted product. To further preserve the power of the brand, we closely control all aesthetic aspects of the product and its sale, including the design of all the products, packaging, and collateral materials, as well as print and television advertisements. 2000 was another year of outstanding growth for our Merchandising segment, with revenue growth from 1999 to 2000 of 21% to \$24 million and EBITDA growth of 21% to \$24 million. 2000 highlights include:

- the growth of retail sales of our branded merchandise to in excess of \$1.3 billion for Martha Stewart Everyday, with our mass-market line available at Kmart and Sears domestically and Canadian Tire and Zellers in Canada.
- the expansion of our Martha Stewart Everyday Garden collection to more than 1,300 garden and outdoor living products, including over 700 SKUs of live plants and seeds.
- the launch of Martha Stewart Everyday Kitchen, an extensive 650-SKU line of housewares products based on classic utensils, pots and pans, dishes, flatware, and beverage ware favored by Martha in her own homes.

CONTENT

marthastewart.com

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ENCYCLOPEDIA OF PLANTS

Achillea 'Galaxy Hybrids'	Botanical name: <i>Achillea</i> 'Galaxy Hybrids'
	Common name(s): mixed hybrid yarrow
	Cultivar: 'Galaxy Hybrids'

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PLANT DESCRIPTION
 Yarrow bears slightly rounded heads of variously colored, tiny, cross-shaped flowers above finely cut, aromatic, gray-green foliage. 'Galaxy Hybrids' produces 4-5-inch-wide flower heads in colors ranging from yellow to lavender to paprika.

PROFILE
 Plant type: perennial, herb
 USDA Hardiness Zones: 4 to 9
 Light: full sun
 Habit: clump-forming, erect
 Soil: well drained
 Soil pH: slightly acidic to neutral, pH 6.5 - 7
 Soil moisture: average
 Bloom time: summer
 Reblooms: yes (fall, if deadheaded)
 Flower color: lavender, pink, red, yellow (flattened clusters of flowers)
 Bloom size: 3 in. to 4 in.
 Foliage color: gray-green (finely cut, basal rosette, sparse along the flower stem)
 Foliage size: 3 in. to 4 in.
 Fruit or seed head color: gray-green

FEATURES
 Fragrance (aromatic leaves)
 Drought tolerant
 Attracts butterflies
 Deer resistant
 Attractive foliage
 Attractive fruits or seed heads

GARDEN USES
 Flower beds and borders

DO YOU KNOW?
 Yarrow has been used as a medicinal herb for about 3,000 years. According to Homer's "Iliad," Achilles packed it onto soldiers' wounds to stop bleeding during the Trojan War. The herb's botanical name, *Achillea*, is attributed to Achilles' use of it.

GENERAL MAINTENANCE
 Deadhead spent blooms to encourage flowering, or enjoy attractive seed heads. Remove old foliage after frost or before growth resumes in spring. If cut

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RECIPE FINDER | COOKING 101 | COOKIES | TABLE SETTINGS

RECIPE FINDER

SEARCH

[Back to Results](#) | [New Search](#) | [Revise Search](#) | [Previous recipe](#) | [Next recipe](#)

COCONUT LAYER CAKE

Makes 3 six-inch layers

This recipe makes a wonderful six-layer cake. However, if you prefer the look of five layers, the extra cake layer makes a delicious snack.

Ingredients:

- 3/4 cup (1 1/2 sticks) unsalted butter, room temperature, plus more for pans
- 2 cups sifted cake flour (not self-rising), plus more for pans
- 1/2 teaspoon baking powder
- 1/2 teaspoon baking soda
- 1/4 teaspoon salt
- 1 cup superfine sugar
- 4 large egg yolks, lightly beaten
- 2/3 cup sour cream
- 1 teaspoon pure vanilla extract

Directions:

- Coc onut Cream Filling
- 11 ounces (about 3 3/4 cups) swe etened angel-flake coconut
- Seven Minute Frosting

COMMERCE



MARTHA BY MAIL

Our signature collection of products increased by more than 1,200 SKUs in 2000 (including holiday gift baskets, above).



marthacards

Create custom, personalized greetings for holidays and all occasions using images from our archive.



marthasflowers.com

Order from a selection of luscious growers bunches or fresh flowers by the month.



BLUELIGHT.COM

Choose and buy from among more than 4,000 SKUs of kitchen, home, garden, and baby products in our Martha Stewart Everyday assortments.

OMNIINTERNET⁷

we distribute content and merchandise through all possible platforms

Because, as teachers, our goal is to provide our content and merchandise to the widest possible audience, we are “distribution platform neutral.” Although our publications, television programming, and retail relationships offer great access to our products, it is through the Internet/Direct Commerce platform that we are able to provide our consumers with what they want, when and where they want it, nearly instantaneously. It puts our consumer in charge of the terms of the relationship.

While other companies are exiting the Internet segment, we believe that the Internet is an essential distribution platform and unique tool for interacting with our audiences, as well as a key to establishing a lifelong personal relationship with the next generation of Martha Stewart consumers. Unlike stand-alone dot-coms, we have already established a ubiquitous brand and a powerful Omnimedia marketing machine, and have developed an extensive library of content ready to bring to our website, all reducing our Internet-specific investment.

However, like any new media venture, some investment is required. We are currently making controlled investments in a state-of-the-art electronic-distribution and fulfillment platform for marthastewart.com, supported by best-of-breed technology and a world-class production and technological team. This plan will be cost-effective as we leverage off the investment made by BlueLight.com in building their own website infrastructure. Our investment in marthastewart.com is designed to ensure that we maintain and exploit our home-related leadership across all content and distribution channels on both a short and long-term basis. In 2000 revenues increased in this segment 38% to \$50 million.

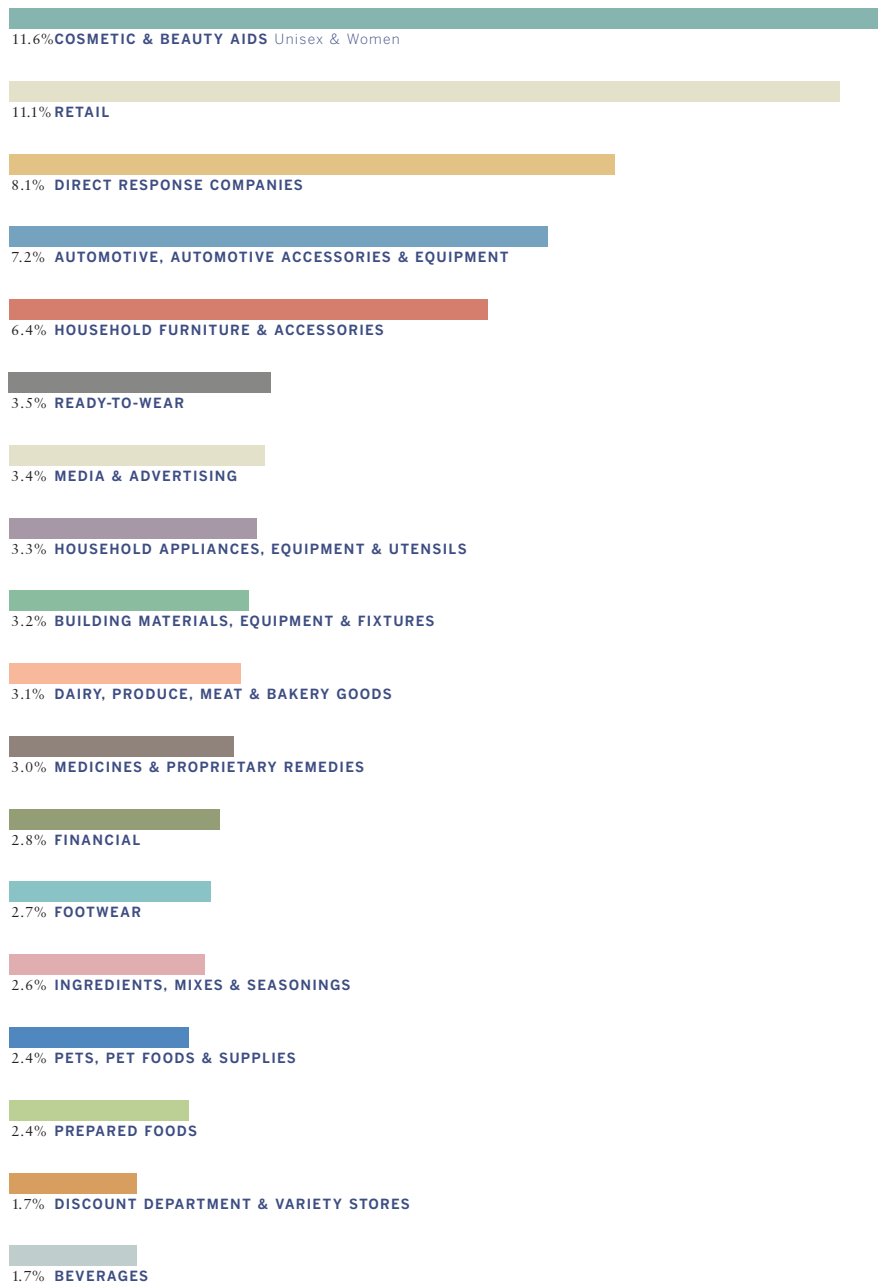
Major accomplishments in 2000 related to our Internet/Direct Commerce segment include:

- the addition of 1,500 SKUs of signature Martha by Mail products added to our online store and the introduction of the Martha Stewart Everyday microsite on BlueLight.com, our growing mass-market electronic outlet that links to marthastewart.com, offering over 4,000 SKUs of Martha Stewart Everyday bed and bath, garden, kitchen, and baby products by year-end.
- the diversification of our revenue streams to include two royalty-based programs, including BlueLight.com and Marthascards. Both programs are immediately accretive to our bottom line. Marthascards repurposes our existing beautiful photography, while BlueLight.com allows Web shoppers to buy our Martha Stewart Everyday merchandise online.
- an increase in average monthly visitors of 47% to approximately 1 million (1.3 million by fourth quarter), an increase in registered users of 43% to over 1.6 million by year-end, continued successful migration of purchases from catalog to Internet (nearly 50% of our commerce revenues were received from online sales) and the cross selling of 83,000 magazine subscriptions.

PIB REVENUE 2000

categories ranked by 2000 revenue

Eighteen industry categories accounted for 80% of Martha Stewart Living magazine's 2000 advertising revenues, demonstrating that we are not dependent on any one category of advertising business. Our other media demonstrated a similar diversity of advertising categories.



OMNIADVERTISING

we maximize earnings with a single sales force selling across all platforms



We centralize core competencies to ensure maximum efficiencies and profitability. For additional leverage, we employ a single centralized advertising sales force to sell advertising for all of our distribution platforms and business segments. By selling advertising for all of our magazines, television shows, radio programs, and our website through a central sales team, we spread and lower our fixed costs even further. Additionally, our advertisers will pay a premium for single sponsorship opportunities in one or more MSO media in order to achieve an association with our brand. Our upscale, educated brand demographics are particularly appealing to these advertisers. Although they vary among media outlets, in general, our demographic is predominantly female between the ages of 25 and 54, and exhibit above average propensity for having attended college and having median household incomes exceeding \$50,000 per year.

A single sales force selling all media spreads and lowers our fixed costs. As of year-end 2000, our core advertising sales and marketing group consisted of only 20 employees, all of whom sold across our Omnimedia platform. 2000 highlights include:

- 77 of our advertisers (nearly 20%) placed advertising in two or more MSO media in 2000, as compared with 54 advertisers in 1999; 22 MSO advertisers scheduled advertising on both the “Martha Stewart Living” syndicated daytime show and “From Martha’s Kitchen” on the Food Network, compared with 12 such advertisers in 1999, an 83% increase.
- the first two issues of Martha Stewart Baby were sponsored by single advertisers.
- advertising spending on marthastewart.com increased by 63% from 1999 to 2000. 172 advertisers in approximately 23 advertising categories placed online advertising with us, compared with 108 in 1999, providing a diversified advertiser base for marthastewart.com.



INVESTMENT

9

we invest in a profitable future



MSO believes in the future, and especially in MSO's future. Accordingly, we are willing to invest carefully and deliberately in the research, infrastructure, and people it will take to support the growth we strive for—it's fundamental to the way we do business.

We invest in content. Because our content is evergreen, we don't measure the success of a project based merely on the project itself. We know that a story that is researched for a magazine article may later appear in a television segment, in a line of merchandise, and on the Internet. The multiplicity of revenue streams that each project may generate and the duration over which those streams may be realized enables us to allocate resources and care to a project our competitors cannot. We think it results in a better product and a more profitable business.

We also invest in infrastructure. Last year brought an important new commitment to our company's future: our expansion to a third facility in the historic Starrett-Lehigh Building in the Chelsea section of Manhattan. With Starrett-Lehigh, we haven't merely "expanded" physically; more important, we have expanded strategically. Here we have been able to unite our Merchandising and Internet/Direct Commerce business units on a single floor, to work together toward their goal of a seamless content and offline/online commerce experience throughout the retail pyramid. All of this, in a building that might have been designed by us, so perfectly does it communicate our brand and its values.

Most important, we invest in people. MSO is not just a corporation, it's like a university. Our core content experts and their deputies are like professors who teach new crops of employees all about gardening, cooking, or whatever their particular field of expertise is, the "Martha brand" way. Soon these employees become experts in their own right, so that they can in turn teach those who come after them. Moreover, we don't just teach employees about a particular content area; rather like a liberal arts college, we teach them "brand standards"—how to approach a subject, how to immerse themselves in it, and then how to present it to the consumer in a simple, useful fashion. This enables us to tackle new content areas with the expertise developed in other fields but with the consistency and authority our consumers have come to expect of the brand.

Examples of these types of investments in 2000 include:

- the content underlying "Turkey 101," a story that ran in Martha Stewart Living in 1995, has since generated a television segment, a newspaper column, a radio segment, a Martha by Mail product kit, and, in 2000, the basic turkey roasting tools included in our Martha Stewart Everyday Kitchen assortment at mass market.
- the synergies realized by uniting our Merchandising and Internet/Direct Commerce personnel at Starrett-Lehigh enabled us to reduce headcount.
- we launched an eighth core content area, Baby & Kids, using existing creative personnel and the same careful, scholarly methods they had developed working on Cooking and Entertaining, Gardening, and other core areas.

BRAND FAMILY ¹⁰

we share a passion for living

At the end of the day, tenets one through nine equal ten! The sum of the parts at MSO is the creation of a trust-based relationship with a large and vibrant brand family. We are dedicated every day to building an ever richer community of homemakers, cooks, gardeners, crafters, restorers and decorators, collectors, photographers, mothers, children, brides and their families. We share what we know with passion, teaching, servicing, connecting them with one another and others who are interested in lifestyle and in learning how to improve the quality of living in their homes.

In addition to mining their own expertise, the editors of Martha Stewart Living magazine and Martha Stewart Living television search out and celebrate other people—the nation’s farmers, florists, bakers, woodworkers, and many others like them—who have also devoted their lives and careers to learning and to mastering many domestic and lifestyle skills. We share their how-to secrets and years of practical experience through beautiful photography and careful information that explains their techniques in step-by-step, accessible fashion. In Martha Stewart Weddings, we share the experiences of real brides on their actual wedding days through portfolios of spontaneous photographs that celebrate the emotion of the celebration and all the hard work and ideas that led up to it. In Martha Stewart Baby, we photograph real babies, not models; they are our own infants and children, or the children of friends; and these friends also share their useful and inspired ideas for solving everyday problems.

In this way, we try to share with our consumers a tapestry of American lifestyle in which all the many participants in the Martha Stewart brand family have their own special place. Our brand family shares right back!

- they are large in number: In 2000, over 10 million people read Martha Stewart Living magazine each month; 2 million watched our television shows daily; over 600,000 orders were placed through Martha by Mail, and \$1.3 billion of Martha Stewart branded products were sold at retail.
- and, like any family, they are involved: In 2000 we received and answered nearly 100,000 letters and twice as many emails from our brand family asking for more information, and sharing their insights on our ideas and products. We answered an additional 595,000 weddings-related questions on marthastewart.com alone.

When all is said and done, at MSO, our readers, viewers, and customers depend on us to create and edit ideas and products for them, and we depend on them to tell us if we are successful—if we are truly providing them with the “right tool for the right job.” If we are not, we trust them to tell us why, and we will respond.

Brand Family—it’s all about trust and integrity—and The Power of Ten.



8-21-00

Dear Martha—
Picture is of Martha Stewart
'Mammoth Russian'
Sunflower. Height
on package says 9'-12'.
This one is 13'6."
Clem, the neighbor is
holding a 9' ladder so
my husband, Dennis,
can climb to the top and
tie up the sunflower
one last time.
Thanks -
Janda D.

1999-2000 **FINANCIAL STATEMENTS**

SELECTED FINANCIAL DATA

YEARS ENDED DECEMBER 31

(in thousands except per share data)

	1997 ⁴	1998	1999	2000	compound annual growth rate 1997-2000
INCOME STATEMENT DATA					
REVENUES					
Publishing	\$ 108,694	\$ 127,020	\$ 145,520	\$ 179,218	18.1%
Television	12,396	23,351	30,590	32,464	37.8%
Merchandising	6,919	15,004	20,200	24,345	52.1%
Internet/Direct Commerce	4,812	14,673	36,004	49,739	117.8%
Total Revenues	132,821	180,048	232,314	285,766	29.1%
Income from operations	16,591	27,385	22,322	31,707	24.1%
Net income	13,929	23,806	25,569	21,278	nm
Pro forma net income ¹	\$ 6,891	\$ 12,989	\$ 11,692	\$ 21,278	45.6%

PER SHARE DATA²

Earnings per share

Basic			\$.24	\$.44
Diluted			\$.24	\$.43

Weighted average common shares outstanding

Basic			49,588	48,678
Diluted			49,588	49,623

FINANCIAL POSITION

Cash and cash equivalents	\$ 9,971	\$ 24,578	\$ 154,749	\$ 127,425
Total assets	105,706	125,372	281,771	297,414
Long term debt	30,000	27,650	—	—
Shareholders' equity	13,235	36,815	199,402	196,116

OTHER FINANCIAL DATA

EBITDA ³	\$ 20,518	\$ 32,919	\$ 28,882	\$ 40,797	25.7%
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¹ Pro forma net income reflects the income taxes that would have been recorded had the Company been a "C" Corporation for the entire period.

² Earnings per share for the 1999 period are calculated based upon pro forma net income divided by the number of common shares outstanding as if all common shares issued in connection with the Kleiner Perkins investment and the initial public offering were outstanding for all periods presented in order to better reflect comparability between periods. Proceeds received from these transactions have not been included in the calculation of earnings per share. Earnings per share for 1997 and 1998 are not presented as the Company operated as a limited liability company during those years.

³ EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA is not intended to represent cash flow from operations and should not be considered as an alternative to net income as an indicator of the Company's operating performance or to cash flows as a measure of liquidity. The Company believes EBITDA is a standard measure commonly reported and widely used by analysts, investors and other interested parties in the media industry. Accordingly, this information has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance relative to other companies in its industry. This measure may not be comparable to similarly titled measures used by other companies.

⁴ See note 1 to the consolidated financial statements regarding the acquisition of certain assets and liabilities from Time Publishing Ventures, Inc. on February 3, 1997.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Comparison of Year Ended December 31, 2000 to Year Ended December 31, 1999

REVENUES Total revenues increased \$53.5 million, or 23%, to \$285.8 million for the year ended December 31, 2000, from \$232.3 million for the year ended December 31, 1999. Publishing revenues increased \$33.7 million, or 23%, to \$179.2 million for the year ended December 31, 2000, from \$145.5 million for the year ended December 31, 1999. Martha Stewart Living magazine was published eleven times in 2000, compared to ten times in 1999. Advertising revenues increased \$25.1 million, due to an increase in advertising pages sold in Martha Stewart Living magazine and Martha Stewart Weddings, as well as the increased frequency of special-interest publications. In 2000, the Company published two issues of Martha Stewart Baby and one issue of Martha Stewart Holiday-Halloween 2000, compared to 1999, when one special issue was published. Circulation revenues increased \$8.8 million for the year ended December 31, 2000 primarily as a result of the increased frequency of Martha Stewart Living magazine, higher average circulation from issues published in 2000 as well as increased circulation revenues from special publications. Television revenues increased \$1.9 million, or 6%, to \$32.5 million for the year ended December 31, 2000, from \$30.6 million for the year ended December 31, 1999. The increase is due primarily to additional revenues of \$2.2 million associated with higher distribution of the second half hour of our Martha Stewart Living program and additional revenues of \$1.3 million earned from our cable program From Martha's Kitchen, which began broadcasting in September 1999, partially offset by reduced advertising revenues of \$1.4 million on the Martha Stewart Living program due primarily to lower ratings during the year ended December 31, 2000. Merchandising revenues increased \$4.1 million, or 20%, to \$24.3 million for the year ended December 31, 2000, from \$20.2 million for the year ended December 31, 1999, primarily as a result of increased revenues earned on our Martha Stewart Everyday products sold at Kmart. Internet/Direct Commerce revenues increased \$13.7 million, or 38%, to \$49.7 million for the year ended December 31, 2000, from \$36.0 million for the year ended December 31, 1999, due primarily to increased merchandise sales of \$10.9 million and increased advertising revenues of \$2.8 million.

PRODUCTION, DISTRIBUTION AND EDITORIAL Production, distribution and editorial expenses increased \$31.4 million, or 25%, to \$157.4 million for the year ended December 31, 2000, from \$126.0 million for the year ended December 31, 1999. Internet/Direct Commerce costs increased \$20.2 million due to an increase in cost of goods sold and fulfillment costs of \$8.7 million resulting from higher revenues, as well as increased catalog production and distribution costs of \$3.0 million resulting primarily from higher catalog circulation. In addition, costs increased \$6.7 million due to our continued investment in developing and maintaining our Internet site. Publishing segment costs increased \$11.1 million, reflecting the increased number of issues published in 2000, as well as the increased number of pages printed resulting from higher advertising pages sold per issue.

In January 2001, the United States Postal Service enacted rate changes that increased the costs for magazine and catalog mailings an average of 9.9%. The Company's effective increase was less than the average because of the Company's efficient mailing process. Paper prices used in the publication of magazines and catalogs are driven by overall market conditions and, therefore, are difficult to predict. However, at this time, management expects the price of paper will increase only moderately in 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SELLING AND PROMOTION Selling and promotion expenses increased \$6.6 million, or 17%, to \$46.1 million for the year ended December 31, 2000, from \$39.4 million for the year ended December 31, 1999. Publishing segment costs increased \$5.0 million, resulting primarily from increased circulation costs incurred to support higher circulation revenues, including revenues from the publication of Martha Stewart Holiday-Halloween 2000 and two Martha Stewart Baby issues. Internet/Direct Commerce segment costs increased \$1.5 million, resulting primarily from higher costs associated with higher advertising revenues.

GENERAL AND ADMINISTRATIVE General and administrative expenses increased \$3.5 million, or 9%, to \$41.5 million for the year ended December 31, 2000, from \$37.9 million for the year ended December 31, 1999. The higher expenses have been incurred primarily as a result of higher occupancy costs of \$5.5 million needed to support growth in headcount, as well as increased compensation costs of \$1.8 million, offset by lower professional fees of \$1.9 million. Furthermore, 1999 included a contribution to an employee benefit plan of \$1.2 million associated with our becoming a public company in October 1999.

DEPRECIATION AND AMORTIZATION Depreciation and amortization increased \$2.5 million, or 39%, to \$9.1 million for the year ended December 31, 2000, from \$6.6 million for the year ended December 31, 1999. The increase is attributable to higher levels of property and equipment.

INTEREST INCOME, NET Interest income, net, was \$5.6 million for the year ended December 31, 2000, compared to \$0.5 million for the year ended December 31, 1999. Interest income for the year ended December 31, 2000 resulted from higher average cash balances primarily related to the proceeds received from our initial public offering in October 1999. During the year ended December 31, 1999, we had outstanding long-term debt, which resulted in interest expense in that period. Such long-term debt was fully repaid in July 1999.

INCOME TAX PROVISION Income tax provision for the year ended December 31, 2000 was \$16.0 million, representing a 43% effective income tax rate. Income tax benefit during the year ended December 31, 1999 was \$2.7 million. This benefit arose in connection with our conversion to a "C" corporation in October 1999. At that time, the Company recognized a deferred tax benefit of \$4.8 million primarily related to the recognition of net deferred tax assets recorded in accordance with the provisions of SFAS No. 109. During the period prior to the "C" corporation conversion, we operated as a limited liability company and were therefore not subject to Federal income tax on our earnings. In connection with our initial public offering in October 1999, we became a "C" corporation and accordingly our earnings became subject to income taxes from that date forward.

NET INCOME Net income was \$21.3 million for the year ended December 31, 2000, compared to pro forma net income of \$11.7 million for the year ended December 31, 1999, as a result of the above mentioned factors. Pro forma net income reflects the income taxes that would have been recorded had the Company been a "C" corporation for the entire period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Comparison of Year Ended December 31, 1999 to Year Ended December 31, 1998

REVENUES Total revenues increased \$52.3 million, or 29%, to \$232.3 million for the year ended December 31, 1999, from \$180.0 million for the year ended December 31, 1998. Publishing revenues increased \$18.5 million, or 15%, to \$145.5 million for the year ended December 31, 1999, from \$127.0 million for the year ended December 31, 1998. This increase reflects an increase in advertising revenues of \$14.4 million, primarily due to an increase in advertising pages sold in Martha Stewart Living magazine and the increased frequency of Martha Stewart Weddings magazine, which published four times in 1999, compared to two times in 1998. Circulation revenues increased \$4.1 million due to higher subscription revenues from Martha Stewart Living magazine as a result of higher net revenue per copy sold, resulting primarily from lower agent orders in 1999. Circulation revenues also increased due to the increased frequency of Martha Stewart Weddings magazine. Television revenues increased \$7.2 million, or 31%, to \$30.6 million for the year ended December 31, 1999 from \$23.4 million for the year ended December 31, 1998. The increase is due primarily to \$7.0 million of revenues associated with the addition of a second half hour to our syndicated daily program and \$3.6 million of revenues received from our prime-time holiday special "Martha Stewart Home for the Holidays," partially offset by reduced advertising revenues resulting from lower ratings for the year ended December 31, 1999. Merchandising revenues increased \$5.2 million, or 35%, to \$20.2 million, for the year ended December 31, 1999, from \$15.0 million for the year ended December 31, 1998, due primarily to revenues received from the addition of our Martha Stewart Everyday line of garden products, launched in the first quarter of 1999, and also from Martha Stewart Home decorative fabrics and Martha Stewart Everyday Baby Baby products, both launched in the third quarter of 1999. Internet/Direct Commerce revenues increased \$21.3 million, or 145%, to \$36.0 million for the year ended December 31, 1999, from \$14.7 million for the year ended December 31, 1998, due to higher merchandise sales of \$18.4 million resulting from higher catalog circulation and increased Internet traffic.

PRODUCTION, DISTRIBUTION AND EDITORIAL Production, distribution and editorial expenses increased \$43.1 million, or 52%, to \$126.0 million for the year ended December 31, 1999, from \$82.9 million for the year ended December 31, 1998. Internet/Direct Commerce costs increased \$27.8 million due to increased fulfillment costs and cost of goods sold, each as a result of higher revenues, as well as increased catalog production and distribution costs resulting from higher catalog circulation. In addition, costs increased \$6.6 million due to increased investment in developing and maintaining our Internet site. Publishing segment costs increased \$9.7 million, reflecting increased costs for Martha Stewart Living magazine due to an increase in the number of pages printed per issue as a result of higher advertising pages sold and higher printing costs. Furthermore, we published an additional two issues of Martha Stewart Weddings magazine in 1999. Television costs increased \$5.6 million, primarily as a result of higher production and distribution costs incurred for the additional half hour of programming in 1999.

SELLING AND PROMOTION Selling and promotion expenses increased \$4.9 million, or 14%, to \$39.4 million for the year ended December 31, 1999, from \$34.5 million for the year ended December 31, 1998. Publishing segment costs increased \$2.6 million, resulting from increased circulation and advertising sales costs incurred to support higher publishing revenues. Internet/Direct Commerce segment costs increased \$2.3 million, primarily due to increased media spending promoting our Internet site.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL AND ADMINISTRATIVE General and administrative expenses, consisting primarily of costs relating to executive, finance, professional services, information technology, office services, including rent, and human resources, increased \$8.2 million, or 28%, to \$37.9 million for the year ended December 31, 1999, from \$29.7 million for the year ended December 31, 1998. We have incurred higher costs as a result of continued infrastructure development to support higher levels of revenues, including higher information technology, finance, occupancy and professional fees in 1999.

DEPRECIATION AND AMORTIZATION Depreciation and amortization increased \$1.1 million, or 20%, to \$6.6 million for the year ended December 31, 1999, from \$5.5 million for the year ended December 31, 1998. The increase is attributable to higher levels of property and equipment, including \$5.0 million of equipment leases that were refinanced into capital leases in 1999.

INTEREST INCOME (EXPENSE), NET Interest income, net was \$0.5 million for the year ended December 31, 1999, compared to interest expense, net of \$2.2 million for the year ended December 31, 1998. Net interest income resulted in 1999 from repayment of all outstanding long-term debt, as well as interest income earned on the invested proceeds received from our initial public offering in October 1999.

INCOME TAX PROVISION (BENEFIT) The provision for income taxes reflects a net income tax benefit of \$2.7 million for the year ended December 31, 1999. The net income tax benefit in 1999 resulted primarily from the conversion to a "C" corporation as a result of our merger with Martha Stewart Living Omnimedia LLC in October 1999. Accordingly, we recognized a deferred tax benefit of \$4.8 million in 1999. Prior to the merger, we operated as a limited liability company. Income tax expense was \$1.3 million in 1998, representing primarily unincorporated business and foreign income taxes.

NET INCOME Net income increased \$1.8 million, or 8%, to \$25.6 million for the year ended December 31, 1999, from \$23.8 million for the year ended December 31, 1998, primarily as a result of the above mentioned factors.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$127.4 million, \$154.7 million and \$24.6 million at December 31, 2000, 1999 and 1998, respectively.

Cash flows from operating activities were \$39.5 million, \$28.3 million and \$17.5 million for the years ended December 31, 2000, 1999 and 1998, respectively. Cash flows from operating activities in 2000 resulted primarily from net income of \$21.3 million, depreciation and amortization of \$9.1 million, tax benefit from stock option exercises of \$4.2 million, increased accounts payable and accrued liabilities of \$14.9 million, partially offset by increased accounts receivable of \$7.3 million. Increased accounts receivable resulted primarily from higher revenues, including revenues earned from the publication of the January 2001 issue of Martha Stewart Living magazine, published in December 2000. Increased accounts payable and accrued liabilities is primarily due to liabilities resulting from increased capital expenditures in 2000, and generally higher levels of liabilities resulting from increased business volume. Cash flows from operating activities in 1999 resulted primarily from net income of \$25.6 million, depreciation and amortization of \$6.6 million, partially offset by deferred income tax benefit of \$3.8 million. The deferred tax benefit resulted from the conversion to a "C" corporation in 1999 in connection with our initial public offering. Cash provided by financing activities for the year ended December 31, 1998 resulted primarily from net income of \$23.8 million and depreciation and amortization of \$5.5 million, partially offset by deferred royalty income. In 1998, we recognized as revenues \$11.4 million of royalty income paid to the Company in 1997 as an advance against future royalties earned.

Cash flows used in investing activities were \$38.1 million, \$6.3 million and \$0.3 million for the years ended December 31, 2000, 1999 and 1998, respectively. Cash flows used in investing activities in 2000 reflect a \$13.3 million equity investment in BlueLight.com, an e-commerce company, and \$24.7 million in capital expenditures for property and equipment. Cash flows used in investing activities in 1999 represent capital expenditures for property and equipment. Cash flows used in investing activities in 1998 represent \$2.7 million in capital expenditures, partially offset by \$2.4 million of proceeds received from a sale leaseback transaction. We expect capital expenditures to decline to approximately \$12 million to \$14 million in 2001.

Cash flows used in financing activities for the year ended December 31, 2000 were \$28.8 million, resulting from the repurchase of 1.366 million shares of our Class A common stock for \$32.5 million from Time Publishing Ventures, Inc., partially offset by \$3.7 million received from the exercise of stock options in 2000. Cash provided by financing activities was \$108.2 million during the year ended December 31, 1999. In March 1999, we repaid our outstanding long-term debt to Time Publishing Ventures, totaling \$27.7 million, with the proceeds received from a \$15 million term loan from Bank of America and existing cash balances. The amount outstanding under the loan was repaid in July 1999 with the net proceeds of \$25.0 million received from Kleiner Perkins Caufield & Byers, a venture capital firm, for a 5% equity investment in MSLO. In October 1999, we completed an initial public offering of 8.3 million shares of Class A common stock, raising net proceeds of \$132.3 million. Distributions to members of MSLO were \$21.4 million in 1999. Cash flows used in investing activities for the year ended

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

December 31, 1998 resulted from a \$2.4 million repayment of long-term debt to Time Publishing Ventures and distributions to members of MSLO of \$0.2 million.

We have a line of credit with Bank of America in the amount of \$10.0 million, which is available to us for seasonal working capital requirements and general corporate purposes. As of December 31, 2000, we had no outstanding borrowings under this facility.

We believe that our available cash balances together with any cash generated from operations and any funds available under existing credit facilities will be sufficient to meet our operating and recurring cash needs for foreseeable periods. We do not intend to pay any dividends in the foreseeable future.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Several of our businesses can experience fluctuations in quarterly performance. For example, Martha Stewart Living magazine was published eleven times annually in 2000: three issues in each of the first, second and fourth quarters and two issues in the third quarter. Martha Stewart Weddings is published four times annually: one issue in each of the second and third quarters and two issues in the fourth quarter. In addition, the number of advertising pages per issue tend to be higher in issues published in the fourth quarter. Revenue and income from operations for the television segment tend to be higher in the fourth quarter due to generally higher ratings and, on occasion, the broadcast of a holiday prime-time television special. Internet/Direct Commerce revenues also tend to be higher in the fourth quarter due to increased consumer spending during that period. Revenues from the Merchandising segment can vary significantly from quarter to quarter due to new product launches.

FORWARD-LOOKING STATEMENTS

We have included in this Annual Report certain "forward looking statements" as that term is defined in The Private Securities Litigation Reform Act of 1995. These forward-looking statements are not historical facts but instead represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside of our control. It is possible that our actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. These statements 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 downturns in national and/or local economies; a softening of the domestic advertising market; increased consolidation among major advertisers or other events depressing the level of advertising spending; changes in consumer reading, purchasing and/or television viewing patterns; unanticipated increases in paper, postage or printing costs; technological developments affecting products or methods of distribution such as the Internet or e-commerce; changes in government regulations affecting our industries; and the receptivity of consumers to our new product introductions.

MARTHA STEWART LIVING OMNIMEDIA, INC.

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2000, 1999 and 1998

(in thousands except per share data)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
REVENUES			
Publishing	\$ 179,218	\$ 145,520	\$ 127,020
Television	32,464	30,590	23,351
Merchandising	24,345	20,200	15,004
Internet/Direct Commerce	49,739	36,004	14,673
Total revenues	<u>285,766</u>	<u>232,314</u>	<u>180,048</u>
 OPERATING COST AND EXPENSES			
Production, distribution and editorial	157,442	126,043	82,930
Selling and promotion	46,074	39,442	34,540
General and administrative	41,453	37,947	29,659
Depreciation and amortization	9,090	6,560	5,534
Total operating cost and expenses	<u>254,059</u>	<u>209,992</u>	<u>152,663</u>
 INCOME FROM OPERATIONS	31,707	22,322	27,385
Interest income (expense), net	5,569	500	(2,243)
 INCOME BEFORE INCOME TAXES	37,276	22,822	25,142
Income tax provision (benefit)	15,998	(2,747)	1,336
NET INCOME	<u>\$ 21,278</u>	<u>\$ 25,569</u>	<u>\$ 23,806</u>
 EARNINGS PER SHARE			
Basic	\$0.44		
Diluted	\$0.43		
 WEIGHTED AVERAGE COMMON SHARES OUTSTANDING			
Basic	48,678		
Diluted	49,623		

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

MARTHA STEWART LIVING OMNIMEDIA, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 2000 and 1999

(in thousands except per share data)

	<u>2000</u>	<u>1999</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 127,425	\$ 154,749
Accounts receivable, net	48,993	41,683
Inventories	9,433	6,163
Deferred television production costs	3,949	2,543
Other current assets	<u>6,013</u>	<u>4,757</u>
Total current assets	<u>195,813</u>	<u>209,895</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>37,349</u>	<u>18,709</u>
INTANGIBLE ASSETS, net	<u>47,207</u>	<u>50,157</u>
OTHER NONCURRENT ASSETS, net	<u>17,045</u>	<u>3,010</u>
Total assets	<u><u>\$ 297,414</u></u>	<u><u>\$ 281,771</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 48,340	\$ 35,924
Accrued payroll and related costs	7,190	4,677
Income taxes payable	2,590	333
Current portion of deferred subscription income	<u>28,782</u>	<u>26,938</u>
Total current liabilities	<u>86,902</u>	<u>67,872</u>
DEFERRED SUBSCRIPTION INCOME	<u>8,614</u>	<u>8,047</u>
OTHER NONCURRENT LIABILITIES	<u>5,782</u>	<u>6,450</u>
Total liabilities	<u>101,298</u>	<u>82,369</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Class A common stock, \$.01 par value, 350,000 shares authorized: 14,559 and 15,484 shares outstanding in 2000 and 1999, respectively	146	155
Class B common stock, \$.01 par value, 150,000 shares authorized; 33,888 and 34,127 shares outstanding in 2000 and 1999, respectively	339	341
Capital in excess of par value	168,528	193,081
Retained earnings	<u>27,103</u>	<u>5,825</u>
Total shareholders' equity	<u>196,116</u>	<u>199,402</u>
Total liabilities and shareholders' equity	<u><u>\$ 297,414</u></u>	<u><u>\$ 281,771</u></u>

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

MARTHA STEWART LIVING OMNIMEDIA, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2000, 1999 and 1998

(in thousands)

	Members' Equity	Class A common Stock		Class B common Stock		Capital in excess of par value	Retained Earnings	Total
		Shares	Amount	Shares	Amount			
Balance at January 1, 1998	\$13,235	—	—	—	—	—	—	\$13,325
Net income	23,806	—	—	—	—	—	—	23,806
Capital distributions	(226)	—	—	—	—	—	—	(226)
Balance at December 31, 1998	36,815	—	—	—	—	—	—	36,815
Net income	19,744	—	—	—	—	—	\$5,825	25,569
Issuance of equity interests	25,000	—	—	—	—	—	—	25,000
Capital distributions	(21,441)	—	—	—	—	—	—	(21,441)
Common shares issued in connection with the merger of Martha Stewart Living Omnimedia LLC into Martha Stewart Living Omnimedia, Inc.	(60,118)	7,111	\$71	34,127	\$341	\$59,706	—	—
Issuance of shares in connection with initial public offering	—	8,280	83	—	—	132,172	—	132,255
Issuance of shares for employee benefit plans and stock options	—	93	1	—	—	1,203	—	1,204
Balance at December 31, 1999	—	15,484	155	34,127	341	193,081	5,825	199,402
Net income	—	—	—	—	—	—	21,278	21,278
Issuance of shares for employee benefit plans and stock options	—	441	5	—	—	3,704	—	3,709
Repurchase and retirement of common stock	—	(1,366)	(14)	—	—	(32,489)	—	(32,503)
Shares returned by majority shareholder	—	—	—	(239)	(2)	2	—	—
Tax benefit from exercise of stock options	—	—	—	—	—	4,230	—	4,230
Balance at December 31, 2000	\$ —	14,559	\$146	33,888	\$339	\$168,528	\$27,103	\$196,116

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

MARTHA STEWART LIVING OMNIMEDIA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2000, 1999 and 1998
(in thousands)

	<u>2000</u>	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 21,278	\$ 25,569	\$ 23,806
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	9,090	6,560	5,534
Deferred income tax (benefit) expense	(860)	(3,825)	267
Tax benefit from stock option exercises	4,230	—	—
Other non cash charges	—	1,670	—
Changes in operating assets and liabilities			
Accounts receivable, net	(7,310)	(16,423)	(7,314)
Inventories	(3,270)	359	(3,561)
Other current assets	(196)	(1,457)	66
Deferred television production costs	(1,406)	495	767
Other noncurrent assets	(946)	(1,087)	(209)
Accounts payable and accrued liabilities	14,929	12,717	4,942
Income taxes payable	2,257	—	—
Deferred subscription income	2,410	3,507	4,278
Other noncurrent liabilities	(668)	219	(11,052)
	<u>18,260</u>	<u>2,735</u>	<u>(6,282)</u>
Net cash provided by operating activities	<u>39,538</u>	<u>28,304</u>	<u>17,524</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(24,771)	(6,298)	(2,730)
Investment	(13,297)	—	—
Proceeds from sale leaseback transaction	—	—	2,389
Net cash used in investing activities	<u>(38,068)</u>	<u>(6,298)</u>	<u>(341)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal repayment of long term debt	—	(27,650)	(2,350)
Issuance of equity in LLC	—	25,000	—
Issuance of a Class A common stock, net of expenses	3,709	132,255	—
Repurchase and retirement of common stock	(32,503)	—	—
Distribution to members	—	(21,440)	(226)
Net cash provided by (used in) financing activities	<u>(28,794)</u>	<u>108,165</u>	<u>(2,576)</u>
Net increase (decrease) in cash	<u>(27,324)</u>	<u>130,171</u>	<u>14,607</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>154,749</u>	<u>24,578</u>	<u>9,971</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 127,425</u>	<u>\$ 154,749</u>	<u>\$ 24,578</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

1 THE COMPANY

Martha Stewart Living Omnimedia, Inc. (together with its subsidiary, the “Company”) includes the operations, assets and liabilities of Martha Stewart Living Omnimedia LLC (“MSLO”), a predecessor to the Company, which was merged with and into the Company on October 22, 1999. This merger was accounted for as a combination of companies under common control and, accordingly, the financial statements for prior periods have been retroactively restated.

In 1997, the Company entered into an agreement with Time Publishing Ventures, Inc. (together with its parent and affiliated companies, “Time”) pursuant to which it purchased the rights to all Martha Stewart Living publications and television programs and the Martha by Mail business and assumed the related liabilities, for approximately \$53,276, including related acquisition costs (the “MSL acquisition”). Time received a promissory note for \$30,000 and a 6.27% equity interest in the Company. The purchase price was calculated taking into consideration the special income distribution of \$18 million payable to Time pursuant to the limited liability company agreement of the Company. This transaction, which was consummated on February 3, 1997, has been accounted for as a purchase as of January 1, 1997, the effective date on which the assets and liabilities were transferred. In addition, Time and certain of its affiliates entered into transition and other service agreements with the Company, which are described in Note 9.

The Company is a leading creator of original “how-to” content and related products for home-makers and other consumers. The Company’s business segments are Publishing, Television, Merchandising and Internet/Direct Commerce. The Publishing segment primarily consists of the Company’s magazine operations, and also those related to its book, radio, newspaper and music operations. The Television segment consists of the Company’s television production operations that produce television programming that airs in syndication in the United States and on cable in the United States, Canada and certain other international markets, weekly segments on CBS’s The Early Show broadcast, as well as periodic prime-time specials. The Merchandising segment consists of the Company’s operations related to the design of merchandise and related promotional and packaging materials that are distributed by its retail and manufacturing partners in exchange for royalty income. The Internet/Direct Commerce segment comprises the Company’s operations relating to the Martha by Mail catalog and the website marthastewart.com.

A substantial portion of the Company’s revenues are received from sources within the United States.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of the Company’s wholly owned subsidiary. All significant intercompany transactions have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents include cash and all short term securities held for the primary purpose of general liquidity. Such securities mature within three months from the date of acquisition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

Revenue Recognition

Advertising revenues are recorded upon release of magazines for sale to consumers and are stated net of agency commissions and cash and sales discounts. Allowances for estimated bad debts are provided based upon historical experience.

A proportionate share of magazine subscription revenue is recognized as magazines are delivered to subscribers.

Newsstand revenues are recognized based on the on-sale dates of magazines and are recorded based upon estimates of sales. Estimated returns are recorded based upon historical experience.

Television advertising revenues are recognized when the related commercial is aired and is recorded net of estimated reserves for television audience under-delivery.

Product revenues are recorded when the goods are shipped.

Royalties and television appearance fees are recorded as earned in accordance with the specific terms of relevant agreements.

Television Production Costs

Television production costs are capitalized and amortized based on revenue earned as a percentage of total revenue sold for the applicable television product. If a total net loss is projected for a particular product, television production costs are written down to net realizable value.

Intangible Assets

Intangible assets, representing the excess of purchase price over net assets acquired, are amortized over twenty years. Management reassesses quarterly the appropriateness of both the carrying value and remaining life of intangible assets, principally based on forecasts of future undiscounted cash flows.

Inventories

Inventories consisting of paper and catalog products are stated at the lower of cost or market. Cost is determined using the first-in, first-out (FIFO) method.

Advertising Costs

Advertising costs, consisting primarily of direct-response advertising, are expensed in the year incurred.

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 reflect the potential dilution that would occur from the exercise of common stock options outstanding. For the year ended December 31, 2000, the dilutive effect of stock options included in the determination of diluted weighted average common shares outstanding were 945,526. The antidilutive options excluded from this amount totaled 571,025 with a weighted average exercise price of \$25.91.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

Options granted under the Martha Stewart Living Omnimedia LLC Nonqualified Class A LLC/Stock Option Plan are not included as they are not dilutive (See Note 7).

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 are as follows:

Studios and studio equipment	3-10 years
Furniture, fixtures and equipment	3-5 years
Computer hardware and software	3-5 years
Leasehold improvements	life of lease

Deferred Subscription Income

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

Use of Estimates

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

Reclassifications

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

3 EQUITY TRANSACTIONS

Initial Public Offering

On October 22, 1999, the Company completed an initial public offering of 8.3 million shares of Class A common stock at \$18.00 per share, raising net proceeds of \$132,255 after underwriting discounts, commissions and expenses.

Strategic Investment

In July 1999, an affiliate of Kleiner Perkins Caufield & Byers, a venture capital firm, acquired 5% of the Company and was issued a warrant to acquire 15% of any publicly traded class of stock issued by the Company that is intended to reflect the performance of the Company's Internet business (as defined in the warrant) in exchange for \$25,000 in cash. The warrant may also become exercisable in the event of a business combination relating to, or a sale of all or part of, the Company's Internet business. The warrant, which has an exercise price of \$21,000, expires July 27, 2002, and may expire earlier in certain circumstances. \$14,250 of the proceeds from this transaction were used to repay the loan from Bank of America, N.A. (see Note 10).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

4 ACCOUNTS RECEIVABLE

The components of accounts receivable at December 31, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Advertising	\$ 33,645	\$ 30,039
Newsstand	3,518	905
Licensing	7,172	7,321
Other	<u>9,024</u>	<u>9,521</u>
	53,359	47,786
Less: reserve for credits and uncollectible accounts	<u>4,366</u>	<u>6,103</u>
	<u>\$ 48,993</u>	<u>\$ 41,683</u>

5 INVENTORIES

The components of inventories at December 31, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Paper	\$ 4,151	\$ 3,465
Catalog products	<u>5,282</u>	<u>2,698</u>
	<u>\$ 9,433</u>	<u>\$ 6,163</u>

6 PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment at December 31, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Studios and equipment	\$ 6,765	\$ 6,982
Furniture, fixtures and equipment	8,562	6,086
Computer hardware and software	15,628	8,770
Leasehold improvements	<u>19,424</u>	<u>4,502</u>
	50,379	26,340
Less: accumulated depreciation and amortization	<u>13,030</u>	<u>7,631</u>
	<u>\$ 37,349</u>	<u>\$ 18,709</u>

Depreciation expense was \$6,140, \$3,610, and \$2,537 for the years ended December 31, 2000, 1999 and 1998, respectively.

Included in property, plant and equipment are assets which were acquired under capital leases in the amount of \$7,781 and \$7,781, with accumulated amortization of \$3,362 and \$931 at December 31, 2000 and 1999, respectively. Depreciation expense associated with assets under capital leases is included in total depreciation expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

7 EMPLOYEE BENEFIT PLANS

Retirement Plans

The Company established a 401(k) retirement plan effective July 1, 1997, available to substantially all employees. An employee can contribute any percentage of compensation to the plan, up to a maximum of 15% or the maximum allowable contribution by the IRS (\$10.5 in 2000 and \$10 in 1999 and 1998), whichever is less. The Company matches 50% of the first 6% of compensation contributed. Employees vest in employer matching contributions over a period of four years of service. The employer matching contributions totaled approximately \$779, \$385, and \$259 for the years ended December 31, 2000, 1999 and 1998, respectively.

The Company does not sponsor any postretirement and/or postemployment benefits.

Stock Options

The Company established the Martha Stewart Living Omnimedia LLC Nonqualified Class A LLC Unit/Stock Option Plan (the "1997 Option Plan") in November 1997 under which options to purchase 539,564 LLC units were outstanding as of December 31, 1998, based upon an assumed 10 million outstanding LLC units. In connection with the merger with MSLO in October 1999, the outstanding options for approximately 509,841 LLC units were converted into options to purchase 1,995,740 shares of Class A common stock of the Company. The Company has an agreement with the Martha Stewart Family Limited Partnership whereby it periodically returns to the Company on a net treasury basis shares of Class B common stock owned by it or its affiliates in amounts corresponding to the number of these options exercised during the relevant period. In 2000, 238,456 shares of Class B common stock were returned under this agreement. Accordingly, options outstanding under this plan are not dilutive. Options granted under the plan vested 10% at December 31, 1998, 10% at December 31, 1999, and 20% at December 31, 2000 and generally vest 20% and 40% on December 31 of each of the next two years. The status of this stock option plan is summarized as follows:

	<i>Number of shares</i>	<i>Weighted average exercise price</i>
Outstanding as of October 22, 1999	1,995,740	\$ 0.63
Exercised	<u>(27,463)</u>	<u>\$ 0.60</u>
Outstanding as of December 31, 1999	1,968,277	\$ 0.63
Exercised	(216,069)	\$ 0.65
Cancelled	<u>(77,219)</u>	<u>\$ 0.60</u>
Outstanding as of December 31, 2000	<u>1,674,989</u>	<u>\$ 0.63</u>
Options exercisable at:		
December 31, 1999	647,815	\$ 0.63
December 31, 2000	753,545	\$ 0.62

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

The Company has additional stock option plans and agreements that provide for the granting of stock options to employees and non-employee members of the Company's Board of Directors. The options granted under these plans are to purchase Class A common stock at the fair market value on the date of grant. Employee stock options vest ratably on each of the first four anniversaries of the grant date. Non-employee director options vest on the first anniversary of the date of the relevant grant. The term of the options granted under these plans are ten years. The status of these stock option plans is summarized as follows:

	<i>Number of Shares</i>	<i>Weighted average exercise price</i>
Granted	5,131,840	\$ 17.65
Exercised	—	—
Cancelled	<u>(1,800)</u>	<u>18.00</u>
Oustanding as of December 31, 1999	5,130,040	17.65
Granted	2,011,753	18.23
Exercised	(223,717)	16.16
Cancelled	<u>(415,305)</u>	<u>17.81</u>
Oustanding as of December 31, 2000	<u>6,502,771</u>	<u>\$ 17.87</u>

Options exercisable at:

December 31, 1999	—	—
December 31, 2000	1,059,243	\$ 17.97

As permitted by Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation," the Company has elected to continue accounting for employee stock compensation under the APB 25 rules, but disclose pro forma results using SFAS No. 123's alternative accounting treatment, which calculates the total compensation expense to be recognized as the fair value of the award at the date of grant. The fair value of options granted were estimated on the grant date using the Black-Scholes option pricing model using the following assumptions:

	<u>2000</u>	<u>1999</u>
Risk-free interest rates	6.23%	5.78%
Dividend yields	zero	zero
Expected volatility	46%	25%
Expected option life	6 years	6 years
Fair value of options granted	\$ 9.71	\$ 6.63

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

Under SFAS No. 123, compensation cost is recognized in the amount of the estimated fair value of the options over the options vesting period. The pro forma effect on net income for the years ended December 31, 2000, 1999, and 1998 were as follows:

	2000	1999	1998
NET INCOME			
As reported	\$ 21,278	\$ 25,569	\$ 23,806
Pro forma	16,205	24,569	23,753
Pro forma earnings per share, diluted	\$ 0.33	—	—

Equity Compensation Plans

The Company had a Phantom Performance Unit Plan, which provided for the grant of performance units to all employees of the Company with at least one year of service, other than officers, who had no minimum service period. The Phantom Plan terminated upon the completion of the initial public offering on October 22, 1999, with no benefits payable to participants. However, the Board of Directors approved the payment of an award to the participants in the Phantom Plan at termination date, whereby the Company distributed 65,800 shares of Class A common stock to the participants on the date of the initial public offering. The company recognized compensation expense of \$1,184 in 1999, representing the market value of the shares distributed at the date of the distribution.

8 INCOME TAXES

Prior to its conversion to corporate form on October 22, 1999, the Company operated as a limited liability company and generally was not subject to U.S. Federal and state income taxes. The earnings of the Company were subject to local unincorporated business taxes. The results of operations were reportable by the members of the limited liability company on their respective tax returns. Effective with the conversion from a limited liability company, the Company became subject to U.S. Federal, state and local income taxes. The provision (benefit) for income taxes consists of the following for the years ended December 31, 2000, 1999 and 1998:

	2000	1999	1998
CURRENT INCOME TAXES			
Federal	\$ 12,292	\$ 60	—
State and local	4,190	555	\$ 578
Foreign	376	463	491
Total current income tax expense	<u>16,858</u>	<u>1,078</u>	<u>1,069</u>
DEFERRED INCOME TAXES (BENEFIT)			
Federal	(640)	(2,900)	—
State and local	(220)	(925)	267
Total deferred income tax expense (benefit)	<u>(860)</u>	<u>(3,825)</u>	<u>267</u>
Income tax provision (benefit)	<u>\$ 15,998</u>	<u>\$ (2,747)</u>	<u>\$ 1,336</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

A reconciliation from the Federal income tax provision at the statutory rate to the effective rate for the year ended December 31, 2000 is as follows:

Computed tax at the federal statutory rate of 35%	\$ 13,047
State income taxes, net of federal benefit	2,581
Non-deductible goodwill amortization	965
Non-deductible expense	315
Non-taxable interest income	<u>(910)</u>
Provision for income taxes	<u>\$ 15,998</u>
Effective tax rate	<u>42.9%</u>

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when such differences are expected to reverse. In connection with the conversion to a "C" corporation in 1999, the Company recognized a deferred tax benefit of \$4,810 primarily related to the recognition of net deferred tax assets recorded in accordance with the provisions of SFAS No. 109. Such benefit is included in the income tax provision (benefit) in 1999. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
DEFERRED TAX ASSETS:		
Inventory obsolescence reserves	\$ 1,457	\$ 1,076
Provision for doubtful accounts	1,087	815
Accrued rent	949	382
Reserve for newsstand returns	743	405
Depreciation and amortization	—	435
Accrued compensation	603	237
Other	<u>428</u>	<u>650</u>
Total deferred tax assets	<u>5,267</u>	<u>4,000</u>
DEFERRED TAX LIABILITIES		
Depreciation and amortization	<u>(407)</u>	<u>—</u>
Total deferred tax liabilities	<u>(407)</u>	<u>—</u>
NET DEFERRED INCOME TAX ASSET	<u>\$ 4,860</u>	<u>\$ 4,000</u>

9 RELATED PARTY TRANSACTIONS

The Company has entered into a services agreement with Time whereby Time provides certain administrative, purchasing, editing and sales services to the Company, including the purchase of paper. The cost of these services amounted to approximately \$34,749, \$26,812, and \$26,595 in 2000, 1999, and 1998, respectively, including \$34,149, \$26,205, and \$26,010 of paper purchases, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

The Company also entered into agreements with Time, whereby Time provides fulfillment services for Martha By Mail products and the Company's magazines. The fees for these services amounted to approximately \$21,462, \$16,063 and \$11,264 in 2000, 1999 and 1998, respectively.

The Company also entered into an agreement with Time, whereby Time provides newsstand distribution services for the Company's magazines. The fees for these services amounted to approximately \$2,091, \$1,658, and \$1,384 in 2000, 1999, and 1998, respectively.

The aggregate amounts due to Time included in accounts payable and accrued liabilities were approximately \$11,628 and \$3,682 as of December 31, 2000 and 1999, respectively. Aggregate amount due from Time included in accounts receivable, net was \$1.4 million as of December 31, 2000.

Oxmoor House Inc., an affiliate of Time, currently publishes the Martha Stewart Living series of books. The Company has a contract with Oxmoor House whereby the Company and Oxmoor House split net profits from the sale of books. Income recognized under these agreements was approximately \$2,327, \$2,531, and \$1,995, in 2000, 1999, and 1998, respectively.

The Company has entered into a location rental agreement with Martha Stewart, whereby the Company uses various properties owned by Martha Stewart. The fees for use of these properties amounted to \$2,000, \$2,000, and \$1,500 in 2000, 1999, and 1998, respectively.

In March 2000, the Company repurchased 1.366 million shares of Class A common stock from Time at a purchase price of \$23.79 per share, for a total consideration of \$32.5 million. Concurrently, Time's put and call rights relating to its remaining equity terminated.

The Company used the services of a law firm of which Martha Stewart's son-in-law is a partner. The Company paid an aggregate of approximately \$72, \$166, and \$92 in fees and expenses in respect of such services in 2000, 1999, and 1998, respectively.

10 NOTE PAYABLE AND LINE OF CREDIT

The Company had a note payable aggregating \$27,650 to Time Publishing Ventures, Inc. at December 31, 1998. The note was due on February 3, 2001 and bore interest at the current prime rate plus 1% per annum. In March 1999, the Company entered into an agreement with Bank of America, N.A., formerly known as NationsBank, N.A., for a loan in the amount of \$15,000. The proceeds from the loan were used, along with existing cash balances, to pay in full the note payable to Time Publishing Ventures aggregating \$27,650 plus accrued interest. In July 1999, the Company repaid the Bank of America, N.A. loan with the proceeds received from the Kleiner Perkins investment (see Note 3).

The Company has an agreement with Bank of America, N.A. for a line of credit in the amount of \$10,000 with an interest rate equal to LIBOR plus 1% per annum. The agreement also requires the Company to pay a commitment fee equal to one-quarter of 1% per annum of the unused available borrowings. As of December 31, 2000, the Company did not have any amounts outstanding under this agreement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

11 COMMITMENTS AND CONTINGENCIES

The Company leases office facilities and equipment for terms extending through 2010 under operating lease agreements. Total rent expense charged to operations for all such leases was approximately \$8,927, \$3,341, and \$4,100 for the years ended December 31, 2000, 1999, and 1998, respectively.

The following is a schedule of future minimum payments under capitalized and operating leases at December 31, 2000:

	<i>Capitalized Leases</i>	<i>Operating Leases</i>
2001	\$ 2,649	\$ 7,645
2002	2,406	7,763
2003	483	7,877
2004	—	8,040
2005	—	8,239
Thereafter	—	34,205
Total minimum lease payments	5,538	<u>\$ 73,769</u>
Imputed interest	<u>(580)</u>	
Present value of minimum capitalized lease payments	4,958	
Current portion	<u>(2,243)</u>	
Long-term capitalized lease obligation	<u>\$ 2,715</u>	

The Company has outstanding letters of credit for \$2,252 as security for certain leases as of December 31, 2000.

In the ordinary course of business, the Company is involved in various legal proceedings. The Company believes that the ultimate resolution of these claims to the extent not covered by insurance will not, individually or in the aggregate, have a material adverse effect on the Company.

12 OTHER INFORMATION

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

Accumulated amortization of intangible assets was \$11,802 and \$8,851 at December 31, 2000 and 1999, respectively. Amortization expense was \$2,950, \$2,950, and \$2,997 for the years ended December 31, 2000, 1999, and 1998, respectively.

Advertising expense was \$16,276, \$14,541, and \$11,564 for the years ended December 31, 2000, 1999, and 1998, respectively.

Interest paid was \$598, \$2,705, and \$3,962 for the years ended December 31, 2000, 1999, and 1998, respectively.

Income taxes paid were \$10,372, \$716 and \$502 for the years ended December 31, 2000, 1999, and 1998, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

Included in other noncurrent assets at December 31, 2000 is an investment of approximately \$13.3 million in BlueLight.com, an e-commerce company, representing an ownership interest of approximately 5%. The investment is carried at cost. In connection with its investment, the Company has the right to put its BlueLight.com investment to Kmart Corporation for the amount of its initial investment during a nine-month period beginning in March 2002. The exercise of this right is conditioned upon another minority investor in BlueLight.com exercising its similar put right during this period. Kmart Corporation is a majority stockholder of BlueLight.com.

13 INDUSTRY SEGMENTS

The Company's industry segments are discussed in Note 1. Segment information for the years ended December 31, 2000, 1999, and 1998 is as follows:

	<u>Publishing</u>	<u>Television</u>	<u>Merchandising</u>	<u>Internet/Direct Commerce</u>	<u>Corporate Charges</u>	<u>Consolidated</u>
2000						
Revenues	\$ 179,218	\$ 32,464	\$ 24,345	\$ 49,739	—	\$ 285,766
Income (loss) from operations	66,266	5,748	24,160	(25,659)	(38,808)	31,707
Depreciation and amortization	—	1,874	—	192	7,024	9,090
Total assets	30,662	21,850	8,543	12,871	223,488	297,414
Capital expenditures	—	702	—	1,873	22,196	24,771
1999						
Revenues	\$ 145,520	\$ 30,590	\$ 20,200	\$ 36,004	—	\$ 232,314
Income (loss) from operations	48,525	4,708	20,013	(14,767)	(36,157)	22,322
Depreciation and amortization	—	1,569	—	—	4,991	6,560
Total assets	24,570	20,696	7,265	7,444	221,796	281,771
Capital expenditures	—	98	—	—	6,200	6,298
1998						
Revenues	\$ 127,020	\$ 23,351	\$ 15,004	\$ 14,673	—	\$ 180,048
Income (loss) from operations	42,669	3,924	15,305	(4,998)	(29,515)	27,385
Depreciation and amortization	—	1,234	—	—	4,300	5,534
Total assets	21,244	16,021	2,309	8,223	77,575	125,372
Capital expenditures	—	2,313	—	—	417	2,730

14 RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133, as amended, establishes accounting and reporting standards for derivatives as either assets or liabilities on the balance sheet and measure those instruments at fair value. We have determined the impact of initial adoption will not have a material impact on the results of our operations or financial position. The Company is required to adopt SFAS 133 in the first quarter of fiscal 2001.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

In June 2000, FASB issued Statement of Financial Accounting Standard No. 139, "Rescission of FASB Statement No. 53 and Amendments to FASB Statements No. 63, 89 and 121" ("SFAS 139"). FASB 139 rescinds FASB No. 53, "Financial Reporting by Producers and Distributors of Motion Picture Films." An entity that previously was subject to the requirements of Statement 53 is required to follow the guidance in AICPA Statement of Position 00-2, "Accounting by Producers and Distributors of Films." The adoption of this statement did not have a material impact on our financial position or results of operations.

15 EARNINGS PER SHARE (UNAUDITED)

The Company became a "C" Corporation on October 22, 1999. Earnings per share for the years ended December 31, 1999 and 1998 have not been presented, since prior to becoming a "C" Corporation, the Company had LLC interests outstanding and no common shares issued or outstanding. Furthermore, net income for the periods prior to October 22, 1999 do not reflect income taxes that would have been charged had the Company been a "C" Corporation. The pro forma adjustment to income tax provision reflects the income taxes that would have been recorded had the Company been a "C" Corporation for all of 1999.

Pro forma earnings per share for the year ended December 31, 1999 are calculated based upon the weighted average number of common shares outstanding during the year.

Adjusted pro forma earnings per share for the year ended December 31, 1999 is calculated based upon the number of common shares outstanding as if all common shares issued in connection with the Kleiner Perkins investment and the initial public offering were outstanding for the year in order to better reflect comparability between periods. Proceeds received from these transactions have not been included in the calculation of earnings per share.

There was no dilution from common stock equivalents outstanding during such periods and, accordingly, diluted earnings per share are not presented separately.

<i>Year ended December 31,</i>	<i>1999</i>
Net income	\$ 25,569
Pro forma adjustment to income tax provision	13,877
Pro forma net income	11,692
Pro forma	
Earnings per share, basic and diluted	<u> \$.28</u>
Weighted average common shares outstanding, basic and diluted	<u> 41,720</u>
Adjusted pro forma	
Earnings per share, basic and diluted	<u> \$.24</u>
Weighted average common shares outstanding, basic and diluted	<u> 49,588</u>

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

We have audited the accompanying consolidated balance sheets of Martha Stewart Living Omnimedia, Inc. (a Delaware corporation) and subsidiary as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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 financial position of Martha Stewart Living Omnimedia, Inc. and subsidiary as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

A handwritten signature in black ink that reads "Arthur Andersen LLP". The signature is written in a cursive, flowing style.

New York, New York
February 2, 2001

SELECTED QUARTERLY FINANCIAL DATA

(in thousands except per share data)

<u>Year ended December 31, 2000</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
Revenues	\$ 69,146	\$ 69,193	\$ 61,889	\$ 85,538	\$ 285,766
Income from operations	9,347	8,543	5,200	8,617	31,707
Net income	5,581	5,952	3,820	5,925	21,278

EARNINGS PER SHARE

Basic	\$.11	\$.12	\$.08	\$.12	\$.44
Diluted	\$.11	\$.12	\$.08	\$.12	\$.43

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING

Basic	49,616	48,277	48,365	48,473	48,678
Diluted	51,164	48,704	50,741	49,467	49,623

STOCK PRICES PER SHARE⁴

High	\$ 30.19	\$ 25.94	\$ 34.81	\$ 29.50
Low	\$ 21.13	\$ 13.06	\$ 21.06	\$ 17.25

<u>Year ended December 31, 1999</u>	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>	<u>Total</u>
Revenues	\$ 53,379	\$ 58,123	\$ 49,838	\$ 70,974	\$ 232,314
Income from operations	7,420	8,045	3,913	2,944	22,322
Net income ¹	6,619	7,547	3,474	7,929	25,569
Pro forma net income ²	\$ 3,448	\$ 3,965	\$ 1,877	\$ 2,402	\$ 11,692

PRO FORMA²

Earnings per share, basic and diluted	\$.09	\$.10	\$.05	\$.05	\$.28
Weighted average shares outstanding	39,176	39,176	40,596	47,932	41,720

ADJUSTED PRO FORMA³

Earnings per share, basic and diluted	\$.07	\$.08	\$.04	\$.05	\$.24
Weighted average shares outstanding	49,583	49,583	49,583	49,601	49,588

STOCK PRICES PER SHARE

High	—	—	—	\$ 47.50
Low	—	—	—	\$ 20.63

¹ Fourth quarter 1999 net income reflects a deferred tax benefit of \$4,810 resulting from the conversion to a "C" Corporation.

² Pro forma net income reflects the income taxes that would have been recorded had the Company been a "C" Corporation for all periods presented.

³ Adjusted pro forma earnings per share amounts are calculated based upon the number of common shares outstanding as if all common shares issued in connection with the Kleiner Perkins investment and the initial public offering were outstanding for all periods presented in order to better reflect comparability between periods. Proceeds received from these transactions have not been included in the calculation of earnings per share.

⁴ The number of holders of record of Class A and Class B common stock of the Company as of February 6, 2001, was 4,156 and one, respectively.



PHOTOGRAPHY

COVER Maria Robledo

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HOW-TO *top* Nick Dewar, Howard Björnson, Victoria Pearson, David Sawyer; *middle* Gentl & Hyers, Frank Heckers, Dana Gallagher, Kit Latham; *bottom* Gentl & Hyers

BUSINESS MODEL *top* Christopher Baker (1-5 and 7-8), Gentl & Hyers (6); *middle* William Abranowicz, Todd Atkinson, Jennifer Tzar, Victor Schrage, Todd Atkinson, Christopher Baker (2), Victoria Pearson, Gentl & Hyers, Jennifer Tzar; *bottom* Todd Atkinson

OMNIMEDIA PUBLISHING *top* Frank Heckers, Chuck Baker, Gentl & Hyers; *middle* Christopher Baker, Gentl & Hyers (*portrait*), Anna Williams (*food*), Didier Malige; *bottom* William Abranowicz, Evan Sklar (*portrait*), Kit Latham (*leaf*), Luca Trovato; *page 13* Matthew Hranek

OMNIMEDIA TELEVISION *top* Todd Atkinson; *middle* Todd Atkinson, Gentl & Hyers; *bottom* Todd Atkinson

OMNIMERCHANDISING *top* Anna Williams; *middle* Minh & Wass; *1st bottom row* Lisa Hubbard, William Abranowicz, Anna Williams, Jay Zukerkorn (2); *2nd bottom row* Victoria Pearson, Meridian, William Waldron, Charles Maraia, Jay Zukerkorn, Anna Williams

OMNI INTERNET/DIRECT COMMERCE *1st column* Lisa Hubbard, Maria Robledo; *2nd column* Gentl & Hyers (2), Todd Eberle, Anna Williams, Jay Zukerkorn

OMNI ADVERTISING Anna Williams

INVESTMENT Matthew Hranek

CORPORATE MANAGEMENT

Martha Stewart
Chairman and Chief Executive Officer

Sharon Patrick
President and Chief Operating Officer

Greg Blatt
EVP, General Counsel and Secretary

Dora Braschi Cardinale
EVP, Print Production

Stephen Drucker
EVP, Editorial Core and Editor-In-Chief

James Follo
EVP, Chief Financial Officer

Suzanne Sobel
EVP, Advertising Sales and Marketing, Publisher

Lauren Podlach Stanich
EVP, President, Publishing

Gael Towey
EVP, Creative Director

PRESS RELATIONS

Susan Magrino
Susan Magrino Agency
Director of Public Relations

Megan Stack
Communications Manager

BOARD OF DIRECTORS

Martha Stewart

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L . John Doerr
General Partner
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Arthur C. Martinez
Retired Chairman and CEO
Sears, Roebuck and Co.

Sharon Patrick

Naomi O. Seligman
Co-Founder
Cassius Advisers

STOCK LISTING

Martha Stewart Living Omnimedia, Inc.
Class A Common Stock is listed on the
New York Stock Exchange. Ticker symbol: MSO

AUDITORS

Arthur Andersen LLP

SHAREHOLDER SERVICES / TRANSFER AGENT AND REGISTRAR

Mellon Investor Services LLC
85 Challenger Road Overpeck Center
Ridgefield Park, New Jersey 07660
(888)540-9883
E-mail: shrrelations@mellon-investor.com

INVESTOR INFORMATION

Investor inquiries should be directed to the Investor Relations Department at Martha Stewart Living Omnimedia, Inc., 11 West 42nd Street, New York, New York 10036, (212)827-8455. A copy of the company's annual report filed with the Securities and Exchange Commission (Form 10-K) will be furnished without charge to any shareholder upon request. This report, together with other company information, will be available on the Internet at marthastewart.com. Please direct e-mail inquiries to: ir@marthastewart.com.

ANNUAL MEETING

The Annual Meeting of Stockholders will be held at our offices at The Starrett-Lehigh Building, 601 West 26th Street, 9th floor, New York, NY 10001 May 2, 2001 starting at 4:00 p.m.

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