



[the multiplier effect]

MARTHA STEWART LIVING OMNIMEDIA
1999 ANNUAL REPORT

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FINANCIAL HIGHLIGHTS

<i>\$ millions</i>			<i>Compound Annual</i>	<i>Growth Rate</i>
<i>Fiscal Year Ended December 31</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>1997-1999</i>
total revenues	\$132.8	\$180.0	\$232.3	32.2%
income from operations	\$16.6	\$27.4	\$22.3	16.0%
net income	\$13.9	\$23.8	\$25.6	35.5%
earnings per share*	\$.14	\$.26	\$.24	30.9%

** earnings per share have been computed as if the shares outstanding after the initial public offering had been outstanding, and the company had been a taxpayer, for all periods.*

CORPORATE MANAGEMENT

MARTHA STEWART
chairman and chief executive officer

SHARON PATRICK
president and chief operating officer

HELEN MURPHY
chief financial and administrative officer

GREG BLATT
evp, general counsel and secretary

SHEILA BEAUCHESNE
svp, chief information officer

LORI RIORDAN
vp, human resources

CREATIVE CORE MANAGEMENT

GAEL TOWEY
evp, creative director

STEPHEN DRUCKER
evp, editorial core and editor-in-chief

ERIC A. PIKE
svp, design director

SUSAN SPUNGEN
svp, cooking & entertaining editor

MARGARET ROACH
svp, gardening editor

HANNAH MILMAN
vp, holidays/crafts editor

STEPHEN EARLE
svp, style editor

FREDERICK KARCH
svp, style editor

DARCY MILLER
vp, weddings editor

OPERATIONAL MANAGEMENT

LAUREN PODLACH STANICH
evp, consumer and product marketing

SUZANNE SOBEL
evp, advertising sales and marketing, publisher

DORA BRASCHI CARDINALE
evp, print production

JAMES FOLLO
svp, finance and controller

PRESS RELATIONS

SUSAN MAGRINO
director of public relations

BOARD OF DIRECTORS

MARTHA STEWART
SHARON PATRICK
CHARLOTTE L. BEERS
chairman
J. Walter Thompson Worldwide

L. JOHN DOERR
general partner
Kleiner Perkins Caufield & Byers

NAOMI O. SELIGMAN
co-founder
Research Board, Inc.

STOCK LISTING

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

AUDITORS

Arthur Anderson LLP

**SHAREHOLDER SERVICES/
TRANSFER AGENT AND REGISTRAR**

ChaseMellon Shareholder Services
85 Challenger Road Overpeck Center
Ridgefield Park, New Jersey 07660
(888) 540-9883
E-mail: shrrelations@chase.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 General Meeting will be held at
The Equitable Auditorium, 787 Seventh
Avenue, New York, New York, on Thursday,
May 11, 2000 starting at 2:00 p.m.



to our shareholders

I set out to create a company that would provide impeccable content, assiduously created, and useful products, responsibly designed and manufactured for the widest possible audience in order to enliven, enhance, and better everyday living. It is with great pride and pleasure that I write my first annual letter to you, our shareholders, as chairman and chief executive officer of our exciting, fast-growing, unique, and pioneering young company, Martha Stewart Living Omnimedia. In doing so, I thought I would share with you some of our achievements in 1999, the year we took the company public.

In 1999 our revenues grew to a record level of \$232 million, an increase of 29% over 1998. Most important, growth was strong across all our business segments, with Publishing revenues growing 15%, Television 31%, Merchandising 35%, and Internet/Direct Commerce 145%, making it our second-largest business segment.

In 1999 we launched exciting and innovative merchandise lines. These include Martha Stewart Everyday Garden, offering high-quality, reasonably priced garden furniture, specially selected seeds, fine gardening tools, and much more. Our Martha Stewart Everyday Baby baby line was launched at mass market at Kmart and Zellers, and its success prompted the development of a special magazine issue, Martha

Stewart Baby, for publication in February 2000. Martha Stewart Home, our beautifully designed decorative fabrics collection, was launched during the summer of 1999, and a second collection will be in specialty retail stores this spring. Marthasflowers was introduced in our catalog, Martha by Mail, and simultaneously in our online store. Additionally, we began to make significant investments in our Internet/Direct Commerce segment, developing new and exciting product offerings for living so that marthastewart.com will become “your home on the web.”

Among this year’s other notable achievements were record ad pages in publishing; the successful introduction on the Food Network of a new cable television show, from Martha’s Kitchen; a fifth Emmy for our daily one-hour syndicated show; the National Magazine Award for Best Photography; and one billion dollars in sales of Martha Stewart Everyday products at retail. These accomplishments are indicative of a vibrant, creative, pertinent company, in tune with what the consumer wants and needs.

Everything we do at Martha Stewart Living Omnimedia is done as a team. Every story that appears in the pages of the magazine is a team effort; every product we design is the result of careful collaboration; and our offices in both the business and creative core areas are abuzz with discussions, deliberations, and planning sessions.

We focus on growth, and our growth comes from ideas. We believe in taking a good idea and developing it quickly and efficiently, testing it for market compatibility, promoting it, and then growing it exponentially. We have lots of good ideas for lots of “good things” in 2000.

And most of all we believe that everyone should learn something new every single day.

Sincerely,

MARTHA STEWART
chairman and chief executive officer

marthastewart.com

E-COMMERCE
Martha by Mail
marthasflowers

CATALOG
Martha by Mail

COMMUNITY
Meeting Place

MASS
MARKET
Martha Stewart Everyday

CABLE
TELEVISION
From Martha's Kitchen

BOOKS
Martha Stewart Living Books
Martha Stewart Books



MAGAZINES
Martha Stewart Living
Martha Stewart Weddings

CONTENT
askMartha

NETWORK
TELEVISION
Martha Stewart Living

NATIONAL
DEPARTMENT STORES
Martha Stewart Paints

NEWSPAPERS
askMartha

RADIO
askMartha

SPECIALTY
RETAILERS
Martha Stewart Home
Fine Paints of Europe

OMNIMEDIA

TELEVISION
Guide & Resources

FREE INTERNET
ACCESS

OMNIMERCHANDISING

INTERNET/DIRECT COMMERCE

our business model

Martha Stewart Living Omnimedia, Inc. (MSO) is a branded and highly integrated content company dedicated to reaching as many people as possible and helping them improve the quality of living in and around the home. We seek to turn dreamers into doers by offering them the information and products they need for do-it-yourself ingenuity the “Martha Stewart” way. We are the leader in home “how-to” and lifestyle, in large measure due to our highly leverageable business model that, based on the multiplier effect, drives growth and earnings for maximum profitability.

At the center of our business model and organizational structure are our seven core content areas: Cooking and Entertaining, Home, Holidays, Gardening, Crafts, Keeping, and Weddings. We make significant investments to produce original and proprietary content for these categories. To date we have developed an extensive asset library of impeccably researched editorial content (over 10,000 pages), radio and video segments (2,300), photographs (over 160,000), original recipes (over 6,000), and merchandise (4,000 SKUs), every one of which supports the high quality, usefulness, and look associated with our brand.

We leverage the investments we make in the creation of content and product across our omnimedia (all media outlets), omnimerchandising (all retail channels), and Internet/Direct Commerce distribution platforms. Leveraging centrally created content across multiple platforms creates the multiplier effect, which produces highly favorable economies of scale, cost sharing, cross-promotion, and cross-selling.

OMNIMEDIA PLATFORM

Our business model allows us to develop any how-to idea, for any core content area, and drive it through our broad range of media outlets: magazines, books, newspaper columns, radio shows, and television programs. An example: Our garden editor produces and researches ideas, which she and her creative team turn into long-form how-to stories for the magazine, in-depth treatments for books, short-form questions-and-answers for the newspaper column, single-idea tips for the radio, and demonstrations for television. Our omnimedia platform ensures that our how-to ideas have access to national media audiences at all times, inspiring

**We leverage our vast content
across all of our media outlets.**

the widest possible audience, creating demand for our products, spreading development costs, and producing a core media business segment that is efficient and consistent across our entire platform with low incremental production costs.

In 1999, we expanded our omnimedia platform with the addition of the Food Network, and now have in place powerful distribution partnerships with Time, Inc. and Bertelsmann for magazines and books; The New York Times Syndicate for newspapers; Westwood One for radio; CBS and King World for broadcast television; and Scripps Howard and the Life Network (in Canada) for cable. Our media reach provides us with substantial cross-promotion and cross-selling opportunities for our advertisers and our own branded businesses.

OMNIMERCHANDISING PLATFORM

Our omnimedia platform creates merchandise demand. The omnimerchandising platform fulfills it. We offer our consumers quality, convenience, and choice across a wide range of “bricks-and-mortar” retail channels, from mass-market discounters to national department stores to a variety of mid-market and high-end specialty stores. Our branded merchandise is available in nearly 5,000 retail outlets in North America: Kmart and Zellers in mass market; Sears and Canadian Tire in national department store chains; and Jo-Ann Fabrics and Crafts, Calico Corners, and other specialty stores. This comprehensive retail infrastructure enables us to develop branded merchandise to reach our customers at every price point: Mass-market discounters and national department stores bring consumers everyday basics at affordable prices, while specialty stores provide products for consumers

Our goal is to sell up and down the retail pyramid.

who want to pursue our projects in a more individualized fashion. Although our in-house team of creative experts designs our entire product assortment, our partners

are generally responsible for product development costs as well as manufacturing and fulfillment. As a result, our royalty revenues flow straight through to the bottom line. Additionally, ideas originally created for our media properties and exhibited throughout our omnimedia platform often take shape in products for our merchandising lines, again creating significant cost savings and consistency throughout our entire brand.

INTERNET/DIRECT COMMERCE PLATFORM

Our model allows us to leverage our assets on our Internet/direct commerce platform. Our Martha by Mail merchandise currently forms the foundation of this platform. These are our high-end, specialized products, specifically developed and selected for sale via catalog and the Internet.

With the development of our omnimedia and omnimerchandising platforms, we now have the assets in place to expand our current website into a world-class Internet portal for significantly less in-

vestment than many of our competitors with the same goal. Our assets are: our well established brand name; our existing content and merchandise; a large, loyal franchise of registered users; existing fulfillment partners whom we use to lower the back-end risks and costs; highly “brand loyal” advertisers, who buy comprehensive packages and drive Internet revenues; and our omnimedia outlets, with which we cross-promote to drive traffic at no cost.

Together, our omnimedia, omnimerchandising and Internet/Direct Commerce platforms provide us with a unique advantage: We provide our consumers with consistent, high-quality information and merchandise through the consumer’s preferred media and retail outlets. We provide them with what they want in the form that they want it, and in doing so achieve economies of scale that would be unachievable without the diversity of media and retail channels we have constructed to support our brand.

Our goal is to be
“your home on the web.”

our business segments

publishing

In publishing, our largest segment, revenues increased 15% to \$145 million in 1999, representing 63% of total revenues. Our publishing business includes magazines and books, as well as the syndicated askMartha newspaper columns and radio show. *Martha Stewart Living*, launched in 1991, is our flagship magazine and is published ten times a year. The magazine offers readers quality and original “how-to” information in a unique editorial environment. In 1999 our circulation averaged 2.3 million copies per issue and had a per issue readership of approximately 10 million. In 1994 we launched *Martha Stewart Weddings*, the definitive source on sophisticated wedding ideas for brides. We also publish special-interest magazines, such as *Entertaining* (1999), which focus on a particular core content topic, allowing us to further strengthen and extend our brand recognition and test new publishing areas.

To date we have authored 31 books with an aggregate of 10 million copies sold. Our books are conceived by Martha Stewart and our editorial experts. Martha’s first book, *Entertaining*, is currently in its 30th printing and has sold over 600,000 copies.

Our weekly syndicated newspaper columns appear in 225 U.S. and Canadian papers. Our radio program is broadcast on 285 radio stations in the U.S., covering 93% of the total U.S. market.



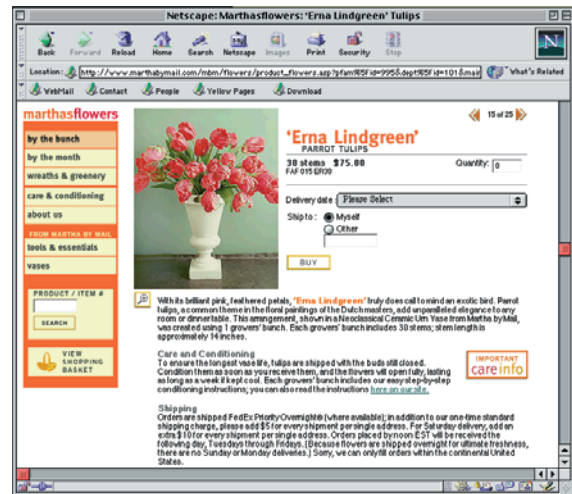
television

Revenues increased 31% to \$31 million in 1999, representing 13% of total revenues. Through television, our how-to ideas are brought to life, motivating viewers to pursue our ideas in their own homes. The cornerstone is our daily one-hour show, syndicated nationwide to network affiliates in 86% of all U.S. television markets. Hosted by Martha, the five-time Emmy award winning show consists of 6 to 8 segments featuring our core content areas. On average 1.6 million viewers watch the show every day. A half-hour “Best of the Week” program is shown on weekends. *From Martha’s Kitchen*, our popular half-hour daily show, airs in the evenings on the Food Network. Periodically we produce primetime network specials. Our 1999 holiday special, *Martha Stewart Home for the Holidays*, was viewed on CBS by approximately 7.5 million U.S. households. We also have a lifestyle morning segment on CBS that airs weekly on *The Early Show*. Our programming is generally created and produced in our state-of-the-art television studio. We sell most of our national advertising on our shows, and we own the rights to all of our television programming.



merchandising

Revenues increased 35% to \$20 million in 1999, representing 9% of total revenues. Martha Stewart Everyday, our line of basic home soft goods and garden essentials, is available at mass market exclusively at Kmart in the U.S. and Zellers in Canada. The Martha Stewart Everyday Home collection is a line of sheets, towels, bath accessories, window treatments, and kitchen textiles. The collection currently has 27 product lines and over 2400 SKUs. The garden program (outdoor furniture and tools) was launched in Spring 1999; in the fall we launched the Martha Stewart Everyday Baby baby line of nursery basics. Martha Stewart Everyday Colors, our latex paint line of 256 colors, is manufactured by Sherwin-Williams and distributed through Kmart and Sears in the U.S. and Canadian Tire in Canada. We also offer Martha's Fine Paints, manufactured by Fine Paints of Europe, at specialty paint dealers. Martha Stewart Home, our branded decorative fabric program, launched in Fall 1999 in specialty stores like Jo-Ann Fabrics and Crafts and Calico Corners. A key component differentiating our merchandising programs is that our in-house creative teams design all products as well as associated advertising, packaging, and promotion materials bearing the Martha Stewart brand name. In 1999, Martha Stewart Everyday was named the number one textile brand by Home Fashion News.



internet/direct commerce

In Internet/Direct Commerce, our second-largest business segment, revenues increased 145% to \$36 million in 1999, representing 15% of our total revenues. This segment consists of our high-end catalog, Martha by Mail, and our Internet site, marthastewart.com. Our Martha by Mail products include the tools necessary to pursue our how-to projects, such as cookie-cutter and snow-globe kits, as well as finished products, such as garden furniture. In 1999 we mailed 11 editions with a total circulation of 15 million, using incentives to drive consumers to marthastewart.com.

Marthastewart.com consists of seven content-rich channels, each dedicated to one of our core areas, as well as over 1,200 SKUs of Martha by Mail product and marthasflowers. It also includes companion content such as recipes for our television programs; askMartha radio scripts; community features; and interactive content in question-and-answer formats. By December 1999, we had over one million registered users and, according to Nielsen Net/Ratings, we were the number one women's site for the 1999 holiday shopping season.



SHARON PATRICK *president and chief operating officer*

CREATIVE CORE MANAGEMENT GAEL TOWEY *evp, creative director* STEPHEN DRUCKER *evp, editorial core and editor-in-chief* ERIC A. PIKE *svp, design director* MARGARET ROACH *svp, gardening editor* SUSAN SPUNGEN *svp, cooking & entertaining editor* STEPHEN EARLE *svp, style editor* HANNAH MILMAN *vp, holidays/crafts editor* FREDERICK KARCH *svp, style editor* DARCY MILLER *vp, weddings editor*

CORPORATE MANAGEMENT HELEN MURPHY *chief financial and administrative officer* GREG BLATT *evp, general counsel and secretary* LORI RIORDAN *vp, human resources* SHEILA BEAUCHESNE *svp, chief information officer*

OPERATIONAL MANAGEMENT LAUREN PODLACH STANICH *evp, consumer and product marketing* SUZANNE SOBEL *evp, advertising sales and marketing, publisher* JAMES FOLLO *svp, finance and controller* DORA BRASCHI CARDINALE *evp, print production*

Our creative core management team directs the development of “how-to” ideas, which feed our content library and inspire our product developers.



our management team

Martha Stewart is our Chairman and CEO. It's her vision—her insight into quality lifestyle—that directs and inspires our company and the senior executives who run our core content and business areas. Sharon Patrick, our President and Chief Operating Officer, is in charge of strategy development, transactions, and day-to-day management. Helen Murphy, our Chief Financial and Administrative Officer, ensures that checks and balances are in place between the creative and financial processes for the company to grow successfully and profitably.

We have significant management depth. The authority that underpins the Martha Stewart brand rests on the depth of skill and knowledge of our management, many of whom have been with us since we launched Martha Stewart Living magazine. Our executives manage over 420 employees, including a highly creative staff of over 180 in-house editors, art and style directors, designers, crafts-people, cooks, and gardeners, as well as a talented business and administrative staff.

Our creative executives are experts in their own right. For example:

- Gael Towey, Executive Vice President, Creative Director, has been with us since 1990. She joined the company with 15 years of experience in the publishing industry as art director of House & Garden magazine and Clarkson N. Potter. She was awarded the 1999 Daimler-Chrysler Award for Design Innovation.
- Stephen Drucker is Editor-in-Chief. He joined in 1996, and came to us with more than 16 years of experience with The New York Times and The Conde Nast Publications, Inc.
- Margaret Roach, Senior Vice President of gardening, has been with us since 1993. She brought with her 20 years of publishing experience at New York Newsday and The New York Times. She won the 1998 Best Written Book of the Year Award from the Garden Writers of America for "A Way to Garden."
- Susan J. Spungen, Senior Vice President of cooking and entertaining, joined us in 1991, bringing 15 years of experience in the food and restaurant industries.

The strength of the executive team allows us to organize the company around centralized creative core content areas and business segments. This unique management structure best leverages our talented leadership for maximum return. The multiplier effect.

[recipes + techniques] + friends = Cooking & Entertaining

Cooking and Entertaining was our first core area, born from the publication of Martha's first book, *Entertaining*, which is still in print after eighteen years. Just as the kitchen is the heart of the home, our Cooking Core is at the heart of our brand, serving a domestic market estimated to be in excess of \$449 billion. Last year our three test kitchens produced a record number of original recipes—delicious, inspiring, trusted, and instantly recognizable to the cook as recipes “from Martha’s kitchen.” But recipes are only part of the mission. Our editors teach the techniques every cook

needs to make daily meals; they help develop and design tools and accessories that will produce the best results and the most beautiful tablesettings; and, always, the Martha Stewart brand supplies the confidence the consumer needs to try something new, knowing that it will succeed. We also add our unique view that entertaining goes far beyond cooking and the kitchen. It embraces the entire home, indoors and out, involving decorating, gardening, crafts, and holidays. Not only is Cooking and Entertaining our biggest core—it is an all-important portal to all of our other businesses.



PUBLISHING In 1999 we developed more than 1,000 original recipes, representing evergreen content with many future uses.

+



PUBLISHING Martha Stewart's *Hors d'Oeuvres Handbook*, released in the spring of 1999, has sold more than 300,000 copies at \$35.

+



TELEVISION 40% of total segments produced in 1999 for our Martha Stewart Living daily syndicated show were about cooking.



"We try to give people something to aspire to. They're always game to learn something new." Susan Spungen, cooking & entertaining editor

from
Martha's
kitchen

MARTHA
STEWART
Living
TELEVISION



TELEVISION Our cable show, launched in Fall 1999, was the highest rated show on the Food Network among women ages 25 to 54.

PUBLISHING A special issue seized the Millennium opportunity with more than one million copies distributed in November.

INTERNET/DIRECT COMMERCE 36% of our product sales at Martha by Mail and online are now from this core area.



“Making it pretty is the easy part of what we do, but where it really gets good is when you add the how-to.” Stephen Earle, style editor



MERCHANDISING
 Martha Stewart Everyday
 achieved \$1 billion in
 sales at Kmart in 1999, after
 only three years.



PUBLISHING Our first
 themed decorating issue set
 a September record with more
 than 400,000 copies sold
 at newsstands.



MERCHANDISING In
 1999 we bridged the mass and
 luxury markets with Martha
 Stewart Home fabrics at
 specialty stores nationwide.



[paint + fabric] x ideas = Home

What color should you paint your bedroom? How will you dress the bed? Where do you put the computer? The Home Core is our decorating laboratory, finding creative answers to everyday questions about every room in the house, serving the needs of a domestic market in excess of \$200 billion. But what we're doing is more than just decorating. Through our Home Core we convey some of the most important values of our brand and build some of our strongest emotional bonds with the customer: We teach the elements of quality and value; we instill the confidence that

comes from "doing it yourself"; we educate the eye by bringing the finest antiques and vintage objects to our consumer; we make people feel that their homes can be more personal and more special. We do this with a holistic view of the home that is grand in scope. Paint, fabric, flowers, vases, furniture, bedding, curtains, and accessories—they can all be found in our magazines and on our television program, radio show, and website. From ideas to products, we coordinate an entire Home category so that it shares a single, powerful, inspiring design message.



TELEVISION *Our shows and appearances, broadcast 21 times per week, attract approximately 1.9 million viewers per day.*



MERCHANDISING *After only three years, Everyday Colors is one of the fastest growing interior latex paint lines in the U.S.*



INTERNET/DIRECT COMMERCE *In the fall, marthasflowers.com was launched, offering the highest quality fresh flowers.*



[tradition + fun] = Holidays

We believe in holidays. They bring people together, unlock creativity, establish traditions, and create the memories that families are built on. They are the perfect fit with the magic and sparkle at the core of our brand. Christmas, Thanksgiving, birthdays, anniversaries, Halloween, Valentine's Day—we take them seriously and have created a strong franchise, the result of planning that continues all year round in our Holidays Core. This creative group is unique to our company, drawing from the resources of all our cores, because every holiday is a celebration all its own, with meals to

prepare, cookies to bake, tables to set, flowers to arrange, rooms to decorate, gifts to make, and customs to uphold. With so much to do, our customers take these special occasions every bit as seriously as we do. They want ideas and products early. Halloween preparations start in September; Christmas in August, if not in April. Our readers and viewers count on our experts to reinvent the holidays for them year after year, with new ideas and new techniques to learn and master. Each year our customers grow with us—and say thanks by setting new holiday sales records.



PUBLISHING *The 336-page December/January issue was our largest magazine ever, setting an ad sales record.*



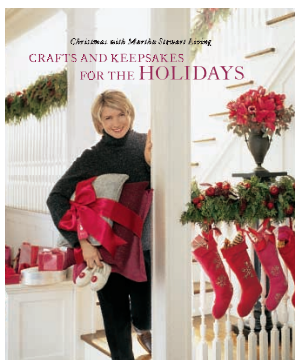
INTERNET/DIRECT COMMERCE *The wreath on our December cover was simultaneously made available on our website as a Martha by Mail kit.*



INTERNET/DIRECT COMMERCE *Our snowglobe kit, featured on our holiday TV special, was a Martha by Mail top-seller.*



"Holidays were the happiest moments of my childhood. We want to help people create those moments." Eric A. Pike, design director



PUBLISHING Our holiday content was repurposed into a Best of Martha Stewart Living book that sold over 200,000 copies.

+



INTERNET/DIRECT COMMERCE American flags in our summer 1999 Martha by Mail catalog sold out before the 4th of July.

+



TELEVISION In December, our Christmas special, Martha Stewart Home For The Holidays, drew a 7.5 prime time household rating.



"I never met a plant I didn't like—and I want everybody to feel that way." Margaret Roach, gardening editor



PUBLISHING In 1999 *Martha Stewart Living* magazine achieved a record 1,557 total advertising pages, a 13% increase from 1998.

+



MERCHANDISING *Martha Stewart Everyday Garden* outdoor furniture and gardening tools were an instant success at Kmart.

[seeds x tools] + information² = Gardening

We vow to change the way America gardens. The gardening marketplace is growing, approximating \$25 billion domestically, though choice for the consumer has not necessarily kept pace. Our Gardening Core believes that everybody deserves the best, and knows that our vast reach can make this possible. We have designed a system for Kmart and Martha by Mail that will give everybody access to the most unusual varieties of plants, the most beautiful colors of flowers, and the seeds for the most delicious heirloom vegetables. We want everybody to be able to buy outdoor furniture and garden

accessories based on the finest prototypes from the antiques world. Most of all, we want everybody to have the best information, so we inspire and support the customer all year round, with advice that is scientifically sound, environmentally responsible, clearly presented, and absolutely trusted. We have built a huge, powerful community of gardeners joined in the belief that a garden is more than just the out-of-doors. It is part of the home, a place to grow healthy food for the table and beautiful flowers for the home, a source of tranquility and satisfaction—another wonderful place for living.

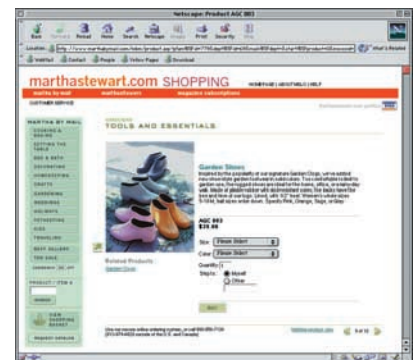


MERCHANDISING

The first phase of *Everyday Garden*, introduced in January, achieved sales of \$125 million at retail.



TELEVISION Television is the ideal vehicle for turning garden dreamers into doers and driving traffic to our website.



INTERNET/DIRECT COMMERCE Martha by Mail's most successful 1999 gardening item was clogs, with nearly 25,000 pairs sold.



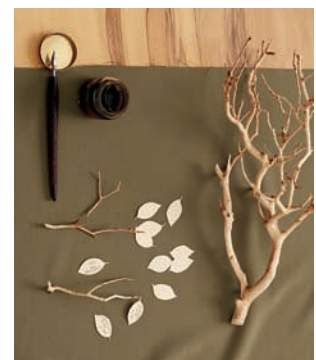
[inspiration + how to] = Crafts

There is nothing as rewarding as making something by hand, and there is no brand that has done more to celebrate and elevate the handmade article than *Martha Stewart Living*. Our talented Crafts Core creates these original ideas, whether making a poinsettia wreath or charting a family tree—then translates them into unique kits, finding just the right balance between ease and challenge, between convenience and creativity. Our crafts core area serves a \$10 billion domestic marketplace. So many wonderful things happen along the way: We find new lives for everyday objects and instill

the message of recycling; we help everybody appreciate the beauties of the natural world, from shells on a Florida beach to tumbleweeds on an Arizona highway; we revisit dying arts and bring attention to skills that might, in a few years, be lost forever; we support artisans who share their secrets about the best tools and materials; we create reasons for families to be together, to learn together, and create a point of entry for children into the Martha Stewart world. But we really know we've succeeded when someone dares to try a project she's only dreamed of and exclaims, "I can do it!"



PUBLISHING In 1999, *Martha Stewart Living* was awarded its third National Magazine Award, for Best Photography.



INTERNET/DIRECT COMMERCE April's cover story led to the creation of our Family Tree kit.



"We want people to realize that 'handmade' doesn't have to mean difficult." Hannah Milman, holidays/crafts editor



TELEVISION Crafts demonstrations on our daily program introduce audiences to ideas as well as to merchandise for sale online.



INTERNET/DIRECT COMMERCE Since launching in August, our Bulletin Boards have generated over 140,000 posts.



"It might look like laundry, but it's really information. Information is our business." Gael Towey, creative director



PUBLISHING Our single-sponsored special issue, Clotheskeeping, launched our Keeping core in the autumn of 1998.

+



PUBLISHING Our newspaper column, with its emphasis on Keeping topics, appears in 225 newspapers in the U.S. and Canada.

[organization + pride] = Keeping

There is no such thing as a menial task; anything worth doing is worth doing well; there is a right way and a wrong way to do everything—these are some of the most important values of our brand. We believe that if you approach life with this attitude, there are countless small achievements, satisfactions, and moments of pride in every seemingly ordinary day. Keeping is the core that teaches this ethic, with ideas and products to keep a house running well and looking its best. In earlier generations these techniques were passed from mother to daughter; today those links are often

broken, and the Martha Stewart brand is rebuilding them with reliable information presented clearly and compellingly. Polishing silver, organizing the basement, restoring a wood tabletop, renovating a window, storing your financial records, washing a sweater, or an automobile, or the dog—these are just some of the areas that the Keeping Core explores, always teaching our most basic philosophy along the way: Buy the best quality you can afford, find the time to take good care of it so that it will last, and perhaps, one day, pass it on to your children as an heirloom.



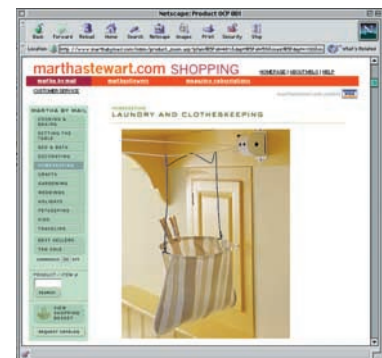
TELEVISION 25% of our television segments in 1999 highlighted topics pertaining to Keeping, such as Petkeeping.

+



TELEVISION *askMartha* interactive segments on our daily television program drew a powerful audience response.

+



INTERNET/DIRECT COMMERCE In its first year, Keeping was the third largest revenue contributor to Martha by Mail.



[love³ x style] = Weddings

The average bride is engaged for a year, a period of intense focus, pressure, and personal growth. She wants to feel unique, creative, confident, and a success as the hostess of the first party of her new life. She needs someone she can trust. Our first Weddings magazine in 1995, building on Martha's enormous success with her 1987 book *Weddings*, quickly established our Weddings Core as a new and unique resource in a domestic marketplace exceeding \$32 billion. The bride and groom look to our brand for sophisticated ideas about cakes, flowers, and favors,

as well as definitive advice on bridal etiquette and setting up a new home. The depth of the information and the originality of our ideas offer brides and families high-quality resources not found anywhere else. During the past year this relationship was cemented further as we increased our magazine frequency to four times a year. And the launch of our online Q&A service askMartha and the publication of *The Best of Martha Stewart Living Weddings* brought more brides to MSO. But our world only begins with the wedding—an appreciative bride and groom are ours for life.



PUBLISHING We have sold over 150,000 copies of our new *Best of Martha Stewart Living Weddings* book.

+



PUBLISHING In 1999, our *Weddings* magazines featured content and ideas favored by many new brides, grooms, and their families.

+



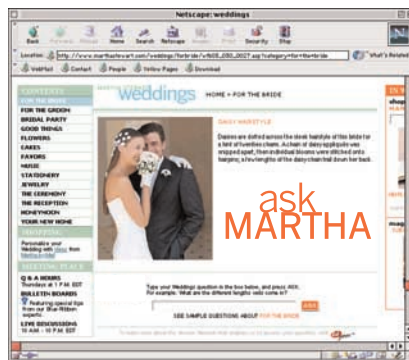
PUBLISHING The *askMartha Weddings* column was launched in newspapers across the country in the fall of 1999.



“Our photography is so dreamy, the bride can almost smell the flowers and taste the cakes.” Darcy Miller, weddings editor



+



INTERNET/DIRECT COMMERCE Wedding favor boxes we created for a 1996 ceremony have become a perennial strong seller.

INTERNET/DIRECT COMMERCE Our askMartha interactive feature answers over 40,000 questions per month.

[mso + internet] = Future Growth^e

At MSO, our focus has always been on growth in each of our core content areas. This growth is the result of several factors: relentless retuning and growing of existing businesses to keep them evolutionary; careful planning and development to enlarge or enhance existing core areas; strategic planning to forge new alliances to increase overall business and efficiencies in all categories; and informed and careful investing in new opportunities to add shareholder value. Most important, we periodically add new core areas of expertise, as we will continue to do with the development of Baby and Children in 2000.

In Publishing, we intend to continue to grow ad pages and create special issues in which we will explore new content areas. We will also author how-to books for sale in conjunction with our merchandising programs, and pursue international expansion.

Our plans in Television include the production of new programming introducing new experts, and increasing production of prime-time specials. Additionally, we will continue to repurpose our existing library for secondary licensing and to pursue international opportunities.

In Merchandising, we intend to grow by core content area and distribution channel. This fall, we will launch the Martha Stewart Everyday Housewares program, bringing our Cooking and Entertaining as well as Keeping content areas to mass market.

Additionally, we are beginning product development in Crafts and Weddings. We will also grow our merchandising business through the expansion of existing product assortments, such as seeds and live plants at mass market, and wall and floor coverings.

Internet/Direct Commerce represents a significant growth opportunity. In 1999 we set the stage for expansion through key technology and production hires, the establishment of a strategic relationship with BlueLight.com to expand our technology platform and traffic, and technological upgrades to marthastewart.com. We sold an equity interest in MSO to the venture capital firm Kleiner Perkins Caufield & Byers, providing access to its vast network and Internet-related experience. In the future, we intend to continue to invest in technology as well as in merchandising, production, and technology personnel. We intend to double our Martha by Mail SKUs in 2000, and make the Martha Stewart Everyday assortment available online at marthastewart.com. Martha by Mail catalog mailings will be increased, driving both online and offline merchandise sales. We also plan to add key features to our seven content channels, like interactive tools, calendar, and video and audio streaming. These upgrades and expansions will generate additional traffic and increase advertising revenues from our website.

[1999 > 1998]

financial statements

SELECTED FINANCIAL DATA

Years ended December 31,
(in thousands except share data)

	1997	1998	1999	Compound annual growth rate 1997-1999
INCOME STATEMENT DATA				
REVENUES				
publishing	\$108,694	\$127,020	\$145,520	15.7%
television	12,396	23,351	30,590	57.1%
merchandising	6,919	15,004	20,200	70.9%
internet/direct commerce	4,812	14,673	36,004	173.3%
total revenues	132,821	180,048	232,314	32.2%
income from operations	16,591	27,385	22,322	16.0%
net income	13,929	23,806	25,569	35.5%
pro forma net income ¹	6,891	12,989	11,692	30.3%
EBITDA ²	20,518	32,919	28,882	18.6%
EBITDA before Internet/Direct Commerce ³	\$21,741	\$37,917	\$43,649	41.7%
PER SHARE DATA				
<i>Pro forma</i> ¹				
earnings per share—basic and diluted	\$.18	\$.33	\$.28	24.7%
weighted average common shares outstanding	39,176	39,176	41,720	
<i>Adjusted pro forma</i> ⁴				
earnings per share—basic and diluted	\$.14	\$.26	\$.24	30.9%
weighted average common shares outstanding	49,583	49,583	49,588	
FINANCIAL POSITION				
cash and cash equivalents	\$9,971	\$24,578	\$154,749	
total assets	105,706	125,372	281,771	
long term debt	30,000	27,650	—	
shareholders' equity	13,235	36,815	199,402	

¹ Pro forma net income reflects the income taxes that would have been recorded had the Company been a "C" Corporation for all periods presented.

² EBITDA is earnings before interest, taxes, depreciation and amortization. EBITDA should not be considered in isolation or as a substitute for measures of performance prepared in accordance with generally accepted accounting principles.

³ EBITDA before Internet / Direct Commerce represents EBITDA of the Company, excluding the operations of the Internet / Direct Commerce business segment.

⁴ 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.

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

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, \$3.6 million 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.

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

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.

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 was \$0.5 million for the year ended December 31, 1999, compared to interest expense 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

Comparison of Year Ended December 31, 1998 to Year Ended December 31, 1997

REVENUES Total revenues increased \$47.2 million, or 36%, to \$180.0 million for the year ended December 31, 1998, from \$132.8 million for the year ended December 31, 1997. Publishing segment revenues increased \$18.3 million, or 17%, to \$127.0 million for the year ended December 31, 1998, from \$108.7 million for the year ended December 31, 1997. This increase primarily reflects higher advertising revenues of \$14.9 million due to an increase in advertising pages sold in Martha Stewart Living magazine of 17% and an increase in per page advertising rates of 5%, as well as additional advertising revenues of \$1.6 million received from a special issue published in the fourth quarter of 1998. Circulation revenues increased \$4.4 million as a result of generally higher newsstand revenues, including newsstand revenues recognized on the special issue. Television revenues increased \$11.0 million, or 88%, to \$23.4 million for the year ended December 31, 1998, from \$12.4 million for the year ended December 31, 1997, due primarily to producing and airing a full year of the daily syndicated show in both the United States and Canada, as opposed to a partial year in 1997, and revenues of \$1.9 million earned from licensing a second half hour of "best of" show during the fourth quarter of 1998. These increases were partially offset by the elimination of revenues of \$0.8 million derived from an agreement under which reruns of Martha Stewart Living programming were aired on the Lifetime cable network. In light of Martha Stewart Living programming moving to a daily format, we elected not to attempt to renew this agreement, which expired during the third quarter of 1997. Merchandising revenues increased \$8.1 million, or 117%, to \$15.0 million for the year ended December 31, 1998, from \$6.9 million for the year ended December 31, 1997. This increase resulted from an increase in revenues of \$4.7 million, resulting from a greater assortment of Martha Stewart Everyday bed and bath products in 1998 and the introduction of these products at Zellers in Canada in December 1998, which contributed \$1.3 million to revenues in 1998. Internet/Direct Commerce revenues increased \$9.9 million, or 205%, to \$14.7 million for the year ended December 31, 1998, from \$4.8 million for the year ended December 31, 1997. The increase is primarily due to an increase in catalog merchandise sales resulting from an increase in both the number of products offered through the catalog and the number of catalogs mailed, in addition to increased sales on our website. Internet advertising revenues increased \$1.1 million, primarily due to our website's first full year of operation in 1998, compared with only four months in 1997.

PRODUCTION, DISTRIBUTION AND EDITORIAL Production, distribution and editorial expenses increased \$23.8 million, or 40%, to \$82.9 million in the year ended December 31, 1998, from \$59.1 million in the year ended December 31, 1997. Publishing segment costs increased \$7.3 million, as a result of an increased number of pages printed per issue of 17% resulting from the increase in advertising pages sold, costs associated with the special issue and higher printing costs. Television costs increased \$4.1 million due to higher production and distribution costs associated with producing and airing a full year of the daily syndicated show. Internet/Direct Commerce costs increased \$12.4 million, due to an

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

increase of \$3.9 million in catalog production and distribution costs resulting from higher catalog circulation. In addition, fulfillment costs increased \$2.3 million and cost of goods sold increased \$4.7 million, each as a result of higher revenues.

SELLING AND PROMOTION Selling and promotion expenses increased \$2.6 million, or 8%, to \$34.5 million for the year ended December 31, 1998 from \$32.0 million for the year ended December 31, 1997. This increase primarily reflects increased Publishing segment costs of \$1.3 million resulting from increased circulation costs and increased Television segment expenses of \$0.9 million associated with the expanded programming schedule.

GENERAL AND ADMINISTRATIVE General and administrative expenses increased \$8.5 million, or 40%, to \$29.7 million for the year ended December 31, 1998 from \$21.2 million for the year ended December 31, 1997. The increase is attributable to higher executive compensation, higher costs associated with increased revenues, the buildup of corporate infrastructure in the business and higher staffing levels throughout the Company.

DEPRECIATION AND AMORTIZATION Depreciation and amortization increased \$1.6 million, or 41%, to \$5.5 million for the year ended December 31, 1998, from \$3.9 million for the year ended December 31, 1997, as a result of higher levels of property, plant and equipment in service.

INTEREST INCOME (EXPENSE), NET Interest expense, net, remained unchanged at \$2.2 million.

NET INCOME Net income increased \$9.9 million, or 71%, to \$23.8 million for the year ended December 31, 1998, from \$13.9 million for the year ended December 31, 1997, primarily as a result of the above mentioned factors.

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents were \$154.7 million at December 31, 1999, compared to \$24.6 million at December 31, 1998, an increase of \$130.1 million. Cash flows from operating activities were \$28.3 million in 1999, compared to \$17.5 million in 1998 and \$44.6 million in 1997. Cash flows from operating activities in 1999 were primarily a result of earnings for the period and changes in working capital.

Cash flows used in investing activities were \$6.3 million in 1999, compared to \$0.3 million in 1998 and \$12.9 million in 1997. The 1999 amount reflects capital expenditures during the period. The 1998 amount reflects capital expenditures of \$2.7 million, partially offset by the proceeds received from a sale leaseback transaction. The 1997 amount consists primarily of capital expenditures.

Cash flows provided by financing activities during 1999 were \$108.2 million, compared to cash flows used in financing activities of \$2.6 million in 1998 and \$21.8 million in 1997. In March 1999, we repaid our outstanding long-term debt to Time Publishing

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

Ventures, totaling \$27.7 million plus accrued interest, with the proceeds of a \$15.0 million term loan from Bank of America, N.A., and existing cash of \$12.7 million plus accrued interest. The outstanding amount of the loan was repaid in July 1999 with the net proceeds of \$25.0 million received from the Kleiner Perkins equity purchase. 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 the members of the LLC were \$21.4 million in 1999. The 1998 amount includes a \$2.4 million payment of long-term debt to Time Publishing Ventures and distribution to members of the LLC of \$0.3 million. The 1997 amount represents distributions to members of the LLC.

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, 1999, we had no outstanding borrowings under this facility.

We do not intend to pay any dividends for the foreseeable future.

We believe that our existing 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.

SEASONALITY AND QUARTERLY FLUCTUATIONS

Several of our businesses can experience fluctuations in quarterly performance. For example, Martha Stewart Living magazine is published ten times annually: three issues in each of the first and second quarters and two issues in each of the third and fourth quarters. 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.

YEAR 2000

The Year 2000 issue concerns the inability of information and non information systems to recognize and process date-sensitive information after 1999 due to the use of only the last two digits to refer to a year. This problem could have affected information systems and other information that relies on microprocessors.

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

The Company conducted a review of its computer systems and software to identify any potential malfunctions due to misidentification of the Year 2000. We have also made inquiries of our important third-party vendors, service providers, customers and partners to determine whether our business relationships with these parties could be adversely affected by Year 2000 issues.

The Company has not experienced any material adverse consequences related to Year 2000 failures of the Company's or third parties' systems or equipment. While management does not expect any future material issues related to Year 2000 to occur, the Company will continue to monitor these issues and the related costs if they occur.

Through December 31, 1999, the Company has spent approximately \$0.2 million to address Year 2000 issues. The spending consisted of system evaluation and remediation of internal systems. Total costs are not expected to be materially higher than this amount.

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. The Company's 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; and changes in government regulations affecting the Company's industries.

MARTHA STEWART LIVING OMNIMEDIA, INC.

CONSOLIDATED INCOME STATEMENTS

For the Years Ended December 31, 1999, 1998 and 1997

(in thousands)

	<u>1999</u>	<u>1998</u>	<u>1997</u>
REVENUES			
publishing	\$145,520	\$127,020	\$108,694
television	30,590	23,351	12,396
merchandising	20,200	15,004	6,919
internet/direct commerce	<u>36,004</u>	<u>14,673</u>	<u>4,812</u>
total revenues	<u>232,314</u>	<u>180,048</u>	<u>132,821</u>
OPERATING COSTS AND EXPENSES			
production, distribution and editorial	126,043	82,930	59,148
selling and promotion	39,442	34,540	31,973
general and administrative	37,947	29,659	21,182
depreciation and amortization	<u>6,560</u>	<u>5,534</u>	<u>3,927</u>
total operating costs and expenses	<u>209,992</u>	<u>152,663</u>	<u>116,230</u>
INCOME FROM OPERATIONS	22,322	27,385	16,591
interest income (expense), net	<u>500</u>	<u>(2,243)</u>	<u>(2,195)</u>
INCOME BEFORE INCOME TAXES	22,822	25,142	14,396
income tax provision (benefit)	<u>(2,747)</u>	<u>1,336</u>	<u>467</u>
NET INCOME	<u>\$25,569</u>	<u>\$23,806</u>	<u>\$13,929</u>

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

MARTHA STEWART LIVING OMNIMEDIA, INC.

CONSOLIDATED BALANCE SHEETS

December 31, 1999 and 1998

(in thousands)

	1999	1998
ASSETS		
CURRENT ASSETS		
cash and cash equivalents	\$154,749	\$24,578
accounts receivable, net	41,683	25,260
inventories	6,163	6,522
deferred television production costs	2,543	3,038
other current assets	4,757	275
total current assets	<u>209,895</u>	<u>59,673</u>
PROPERTY, PLANT AND EQUIPMENT, net	18,709	11,468
INTANGIBLE ASSETS, net	50,157	53,108
OTHER NONCURRENT ASSETS, net	3,010	1,123
total assets	<u>\$281,771</u>	<u>\$125,372</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
accounts payable and accrued liabilities	\$36,257	\$21,242
accrued payroll and related costs	4,677	4,056
accrued interest payable	—	1,581
current portion of deferred subscription income	26,938	26,756
total current liabilities	<u>67,872</u>	<u>53,635</u>
DEFERRED SUBSCRIPTION INCOME	8,047	4,722
DEFERRED ROYALTY INCOME	691	1,782
LONG TERM DEBT	—	27,650
OTHER NONCURRENT LIABILITIES	5,759	768
total liabilities	<u>82,369</u>	<u>88,557</u>
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
class A common stock, \$.01 par value, 350,000 shares authorized; 15,484 shares outstanding	155	—
class B common stock, \$.01 par value, 150,000 shares authorized; 34,127 shares outstanding	341	—
capital in excess of par value	193,081	—
retained earnings	5,825	—
members' equity	—	36,815
total shareholders' equity	<u>199,402</u>	<u>36,815</u>
total liabilities and shareholders' equity	<u>\$281,771</u>	<u>\$125,372</u>

The accompanying notes are an integral part of these consolidated balance sheets.

MARTHA STEWART LIVING OMNIMEDIA, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the Years Ended December 31, 1999, 1998 and 1997

(in thousands)

	Class A common stock		Class B common stock		Capital in excess of par value	Retained earnings	Total
	Members' equity	Shares	Amount	Shares			
balance at December 31, 1996	\$589	—	\$ —	—	\$ —	\$ —	\$589
net income	13,929	—	—	—	—	—	13,929
issuance of equity interests	20,508	—	—	—	—	—	20,508
capital distributions	(21,791)	—	—	—	—	—	(21,791)
balance at December 31, 1997	13,235	—	—	—	—	—	13,235
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 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	—
issuance of shares for employee benefit plans and stock options	—	93	1	—	—	1,203	—
balance at December 31, 1999	\$ —	15,484	\$155	34,127	\$341	\$193,081	\$5,825
							\$199,402

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, 1999, 1998 and 1997

(in thousands)

	1999	1998	1997
CASH FLOWS FROM OPERATING ACTIVITIES			
net income	\$25,569	\$23,806	\$13,929
adjustments to reconcile net income to net cash provided by operating activities			
depreciation and amortization	6,560	5,534	3,927
deferred income tax (benefit) expense	(3,825)	267	457
other non cash charges	1,670	—	—
changes in operating assets and liabilities, net of assets acquired			
accounts receivable, net	(16,423)	(7,314)	341
inventories	359	(3,561)	(1,077)
other current assets	(1,457)	66	4,526
deferred television production costs	495	767	—
other noncurrent assets	(1,087)	(209)	(838)
accounts payable and accrued liabilities	12,717	4,942	12,075
deferred royalty income	(1,091)	(11,420)	12,454
deferred subscription income	3,507	4,278	(1,621)
other noncurrent liabilities	1,310	368	400
	<u>2,735</u>	<u>(6,282)</u>	<u>30,644</u>
net cash provided by operating activities	<u>28,304</u>	<u>17,524</u>	<u>44,573</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
acquisition of Martha Stewart Living, net of cash acquired	—	—	(1,869)
capital expenditures	(6,298)	(2,730)	(11,027)
proceeds from sale leaseback transaction	—	2,389	—
net cash used in investing activities	<u>(6,298)</u>	<u>(341)</u>	<u>(12,896)</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	—	—	—
132,255	132,255	—	—
distributions to members	(21,440)	(226)	(21,791)
net cash provided by (used in) financing activities	<u>108,165</u>	<u>(2,576)</u>	<u>(21,791)</u>
net increase in cash	<u>130,171</u>	<u>14,607</u>	<u>9,886</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>24,578</u>	<u>9,971</u>	<u>85</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$154,749</u>	<u>\$24,578</u>	<u>\$9,971</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”) and purchased Martha Stewart Living magazine as well as the rights to any Martha Stewart Living publications, television programs related to Martha Stewart and the Martha by Mail business, as well as 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 distribution was made in February 1997. 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 homemakers and other consumers. The Company’s business segments are Publishing, Television, Merchandising and Internet/Direct Commerce. Magazine operations accounted for over 90% of the revenues of the Publishing segment, which also includes book publishing, newspaper syndication and radio advertising revenue. The Television segment includes a television program that airs in syndication in the United States and on cable in Canada, as well as weekly segments on CBS’s *The Early Show* and *From Martha’s Kitchen*, a daily program airing on the Food Channel cable network. The Merchandising segment consists solely of royalty revenues generated by the sale of Martha Stewart branded products. The Internet/Direct Commerce segment comprises the sale of Martha by Mail products through the Company’s website and print catalog as well as advertising revenues derived from advertisements on the website.

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.

Royalties and television appearance fees are recorded as earned in accordance with specific terms of each agreement.

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, include the value assigned to subscriber lists, trade names and goodwill, and are being 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

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, 1999 and 1998 are as follows:

	1999	1998
advertising	\$30,039	\$22,720
newsstand	905	1,698
licensing	7,321	2,659
other	9,521	4,188
	<u>47,786</u>	<u>31,265</u>
less: reserve for credits and uncollectible accounts	6,103	6,005
	<u>\$41,683</u>	<u>\$25,260</u>

5 INVENTORIES

The components of inventories at December 31, 1999 and 1998 are as follows:

	1999	1998
paper	\$3,465	\$4,621
catalog products	2,698	1,901
	<u>\$6,163</u>	<u>\$6,522</u>

6 PROPERTY, PLANT AND EQUIPMENT

The components of property, plant and equipment at December 31, 1999 and 1998 are as follows:

	1999	1998
studios and equipment	\$6,982	\$6,971
furniture, fixtures and equipment	6,086	3,189
computer hardware and software	8,770	1,502
leasehold improvements	4,502	3,362
	<u>26,340</u>	<u>15,024</u>
less: accumulated depreciation and amortization	7,631	3,556
	<u>\$18,709</u>	<u>\$11,468</u>

Depreciation expense was \$3,610, \$2,537 and \$1,019 for the years ended December 31, 1999, 1998 and 1997, respectively.

7 EMPLOYEE BENEFIT PLANS

Retirement Plans

The Company established a 401(k) retirement plan effective July 1, 1997, available to substantially all employees who have completed one year of service. 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 in 1999 and 1998), whichever is less. The Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

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 \$385, \$259 and \$207 for the years ended December 31, 1999, 1998 and 1997, 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. Under the merger with MSLO in October 1999, the outstanding options for approximately 509,841 LLC units were converted into options to purchase 1,997,374 shares of Class A common stock. The Company has an agreement with Martha Stewart whereby she will periodically return to the Company on a net treasury basis shares of Class B common stock owned by her or her affiliates in amounts corresponding to the number of these options exercised during the relevant period. Accordingly, options outstanding under this plan are not dilutive. Options granted under the plan are exercisable at \$0.60 per share and vested 10% at December 31, 1998, and 10% at December 31, 1999, and generally vest 20%, 20% and 40% on December 31 of each of the next three years. Options outstanding under the plan at December 31, 1999 were 1,968,277.

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 at the date of grant. Employee stock options vest ratably on each of the first four anniversaries after the grant date. Non-employee director options vest on the first anniversary of the date of the grant of such option. The term of the options granted under these plans are ten years. Total options granted under these plans in 1999 were 5,132,840 at a weighted average exercise price of \$17.65 per share. Total options outstanding under the plans at December 31, 1999 were 5,130,940 at a weighted average exercise price of \$17.65.

The Company accounts for the stock option plans pursuant to Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," under which no compensation cost has been recognized for options to acquire shares granted to employees. For options granted to outside consultants, the Company, as prescribed by APB Opinion No. 25, has recognized an expense of \$37 for the year ended December 31, 1997. No expense was required to be recognized in any subsequent years.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

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:

	1999	1997
risk-free interest rates	5.78%	5.78%
dividend yields	zero	zero
expected volatility	25%	zero
expected option life	6 years	5 years
fair market value per share granted	\$6.63	\$0.15

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, 1999, 1998 and 1997, were as follows:

	1999	1998	1997
NET INCOME			
as reported	\$25,569	\$23,806	\$13,929
pro forma	\$24,569	\$23,753	\$13,922

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

8 INCOME TAXES

Prior to its conversion to corporate form, 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 individual tax returns. Effective with the conversion from a limited liability company on October 22, 1999, 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, 1999, 1998 and 1997:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
CURRENT INCOME TAXES			
federal	\$60		
state and local	555	\$578	\$75
foreign	463	491	
total current income tax expense	<u>1,078</u>	<u>1,069</u>	<u>75</u>
DEFERRED			
federal	(2,900)		(65)
state and local	(925)	267	457
total deferred income tax expense (benefit)	<u>(3,825)</u>	<u>267</u>	<u>392</u>
	<u><u>\$(2,747)</u></u>	<u><u>\$1,336</u></u>	<u><u>\$467</u></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, 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 as of December 31, 1999 are as follows:

DEFERRED TAX ASSETS:

depreciation and amortization	\$ 435
inventory obsolescence reserves	1,076
provision for doubtful accounts	815
accrued rent	382
reserve for newsstand returns	405
other	887
Total deferred tax assets	<u><u>\$ 4,000</u></u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

9 RELATED PARTY TRANSACTIONS

During 1997, the Company 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 \$26,812, \$26,595 and 16,340 in 1999, 1998 and 1997, respectively, including \$26,205, \$26,010 and \$15,265 of paper purchases.

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 \$ 16,063, \$11,264 and \$9,960 in 1999, 1998 and 1997, 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 \$1,658, \$1,384 and \$1,262 in 1999, 1998 and 1997, respectively.

The aggregate amounts due to Time, included in accounts payable and accrued liabilities, were approximately \$3,682 and \$5,431 as of December 31, 1999 and 1998, respectively.

Oxmoor House Inc., an affiliate of Time, currently publishes the Martha Stewart Living series of books. In 1997, the Company entered into 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 \$2,531, \$1,995 and \$2,567, in 1999, 1998 and 1997, 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, \$1,500 and \$1,500 in 1999, 1998 and 1997, respectively.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

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 the prime rate per annum. The agreement also requires the Company to pay a commitment fee equal to one-half of 1% per annum of the unused available borrowings. As of December 31, 1999, the Company did not have any amounts outstanding under this agreement.

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 \$ 3,341, \$4,100 and \$ 3,000 for the years ended December 31, 1999, 1998 and 1997, respectively.

The following is a schedule of future minimum payments under capitalized and operating leases at December 31, 1999:

	<i>Capitalized Leases</i>	<i>Operating Leases</i>
2000	\$2,649	\$7,188
2001	2,649	7,218
2002	2,172	6,825
2003	477	6,837
2004	—	6,926
thereafter	—	40,459
total minimum lease payments	<u>7,947</u>	<u>\$75,453</u>
imputed interest	<u>(977)</u>	
present value of minimum capitalized lease payments	<u>6,970</u>	
current portion	<u>2,651</u>	
long-term capitalized lease obligation	<u>\$4,319</u>	

The Company has outstanding letters of credit for \$2,252 as security for certain leases as of December 31, 1999.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

12 OTHER INFORMATION

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

Accumulated amortization of intangible assets was \$8,851 and \$5,901 at December 31, 1999 and 1998, respectively. Amortization expense was \$2,950, \$2,997 and \$2,904 for the years ended December 31, 1999, 1998 and 1997, respectively.

Advertising expense was \$14,541, \$11,564 and \$10,440 for the years ended December 31, 1999, 1998 and 1997, respectively.

Interest paid was \$2,705, \$3,962 and \$0 for the years ended December 31, 1999, 1998 and 1997, respectively.

Income taxes paid were \$716, \$502 and \$ 458 for the years ended December 31, 1999, 1998 and 1997, respectively.

13 INDUSTRY SEGMENTS

The Company's industry segments are discussed in Note 1. Segment information for the years ended December 31, 1999, 1998 and 1997 was as follows:

	<i>Publishing</i>	<i>Television</i>	<i>Merchandising</i>	<i>Internet/Direct Commerce</i>	<i>Corporate Charges</i>	<i>Consolidated</i>
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
1997						
revenues	\$108,694	\$12,396	\$6,919	\$4,812	—	\$132,821
income (loss) from operations	33,090	320	6,619	(1,223)	(22,215)	16,591
depreciation and amortization	—	430	—	—	3,497	3,927
total assets	20,454	12,004	1,175	3,849	68,224	105,706
capital expenditures	—	8,530	—	—	2,497	11,027

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

14 EARNINGS PER SHARE (UNAUDITED)

The Company became a “C” Corporation on November 22, 1999. Prior thereto, it operated as an LLC. Historical earnings per share 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, historical earnings 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 periods presented.

Pro forma earnings per share amounts are calculated based upon the weighted average number of common shares outstanding during each period presented.

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.

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>	<u>1999</u>	<u>1998</u>	<u>1997</u>
net income	\$25,569	\$23,806	\$13,929
pro forma adjustment to income tax provision	13,877	10,817	7,038
pro forma net income	11,692	12,989	6,891
pro forma			
earnings per share—basic and diluted	\$.28	\$.33	\$.18
weighted average common shares outstanding	41,720	39,176	39,176
adjusted pro forma			
earnings per share—basic and diluted	\$.24	\$.26	\$.14
weighted average common shares outstanding	49,588	49,583	49,583

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in thousands except share data)

15 SUBSEQUENT EVENTS (UNAUDITED)

Strategic Investment

In February 2000, the Company made a cash investment of approximately \$13 million in BlueLight.com, an e-commerce company, representing a 5% ownership interest. As part of the transaction, the Company agreed to make its line of Martha Stewart Everyday products, currently available at Kmart, available on BlueLight.com, for which the company will receive royalty payments.

Share Repurchase

In February 2000, the Company entered into an agreement to repurchase 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.

AUDITORS' REPORT

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, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1999. 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, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

A handwritten signature in cursive script that reads "Arthur Andersen LLP". The signature is written in dark ink on a light-colored background.

New York, New York
February 9, 2000

SELECTED QUARTERLY FINANCIAL DATA

(in thousands except share data)

<i>Year ended December 31, 1999</i>	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>	<i>Total</i>
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 PRICE PER SHARE—NYSE⁴

high	—	—	—	47½
low	—	—	—	20⅞

<i>Year ended December 31, 1998</i>	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>	<i>Total</i>
revenues	\$ 42,300	\$ 43,953	\$ 42,580	\$ 51,215	\$ 180,048
income from operations	6,950	8,300	9,044	3,091	27,385
net income	6,017	7,171	8,285	2,333	23,806
pro forma net income ²	\$ 3,101	\$ 3,798	\$ 4,703	\$ 1,387	\$ 12,989

PRO FORMA

earnings per share—basic and diluted	\$.08	\$.10	\$.12	\$.04	\$.33
weighted average shares outstanding	39,176	39,176	39,176	39,176	39,176

ADJUSTED PRO FORMA³

earnings per share—basic and diluted	\$.06	\$.08	\$.09	\$.03	\$.26
weighted average shares outstanding	49,583	49,583	49,583	49,583	49,583

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 25, 2000, was 3,206 and one, respectively.

PHOTOGRAPHY:

TO OUR SHAREHOLDERS: *Don Freeman*

BUSINESS SEGMENTS *(left to right): Anna Williams, Scott Frances, Charles Maraia, Richard Pierce*

OUR MANAGEMENT TEAM *(left to right): Gentl & Hyers, John Dolan (2), William Abranowicz, John Dolan, Don Freeman, Claudia Grimaldi, John Dolan (2), Richard Phibbs, John Dolan (9)*

COOKING & ENTERTAINING: *(left to right) Anna Williams, Dana Gallagher, Reed Davis, Victoria Pearson (top, 2), Todd Eberle (bottom left), Christopher Baker (bottom right)*

HOME: *minh + wass (top, 2), (left to right) Jason Schmidt, William Abranowicz, minh + wass, Todd Eberle, Charles Maraia, Anna Williams*

HOLIDAYS: *(left to right) Gentl & Hyers (3), Stephen Lewis (top left), Simon Watson (top right), (left to right) William Abranowicz, William Waldron, Todd Atkinson*

GARDENING: *Elliston Lutz (top left), Kit Latham (top right), Dana Gallagher (bottom left), Christopher Baker (bottom right), (left to right) Jason Schmidt, Michel Arnaud, Charles Maraia*

CRAFTS: *William Abranowicz (2), Victor Schragger (top left), Stephen Lewis (top right), Anna Williams (bottom left)*

KEEPING: *Victoria Pearson (top left), Anna Williams (top right), (left to right) Victoria Pearson, Dan Bibb, Victoria Pearson, Grace Huang, Gentl & Hyers*

WEDDINGS: *(left to right) Victoria Pearson, Gentl & Hyers, Dana Gallagher, Carlton Davis, Anthony Amos, Dana Gallagher (top left), Geoff Lung (top right), Gentl & Hyers (bottom left), Didier Malige (bottom right)*

CORPORATE MANAGEMENT

MARTHA STEWART
chairman and chief executive officer

SHARON PATRICK
president and chief operating officer

HELEN MURPHY
chief financial and administrative officer

GREG BLATT
evp, general counsel and secretary

SHEILA BEAUCHESNE
svp, chief information officer

LORI RIORDAN
vp, human resources

CREATIVE CORE MANAGEMENT

GAEL TOWEY
evp, creative director

STEPHEN DRUCKER
evp, editorial core and editor-in-chief

ERIC A. PIKE
svp, design director

SUSAN SPUNGEN
svp, cooking & entertaining editor

MARGARET ROACH
svp, gardening editor

HANNAH MILMAN
vp, holidays/crafts editor

STEPHEN EARLE
svp, style editor

FREDERICK KARCH
svp, style editor

DARCY MILLER
vp, weddings editor

OPERATIONAL MANAGEMENT

LAUREN PODLACH STANICH
evp, consumer and product marketing

SUZANNE SOBEL
evp, advertising sales and marketing, publisher

DORA BRASCHI CARDINALE
evp, print production

JAMES FOLLO
svp, finance and controller

PRESS RELATIONS

SUSAN MAGRINO
director of public relations

BOARD OF DIRECTORS

MARTHA STEWART
SHARON PATRICK
CHARLOTTE L. BEERS
chairman
J. Walter Thompson Worldwide

L. JOHN DOERR
general partner
Kleiner Perkins Caufield & Byers

NAOMI O. SELIGMAN
co-founder
Research Board, Inc.

STOCK LISTING

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

AUDITORS

Arthur Anderson LLP

SHAREHOLDER SERVICES /**TRANSFER AGENT AND REGISTRAR**

ChaseMellon Shareholder Services
85 Challenger Road Overpeck Center
Ridgefield Park, New Jersey 07660
(888) 540-9883
E-mail: shrrelations@chasmellon.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 General Meeting will be held at
The Equitable Auditorium, 787 Seventh
Avenue, New York, New York, on Thursday,
May 11, 2000 starting at 2:00 p.m.