



Corporate Governance at Martha Stewart Living Omnimedia: Not “A Good Thing”

Going to prison usually ends the career of an executive—unless the executive is Martha Stewart.

Stewart’s five-month stay in an American prison in 2005 put an unsightly smudge on her highly polished image as doyenne of the domestic arts. She resigned as chairman and CEO of the company she founded and controlled, Martha Stewart Living Omnimedia (MSO), after her 2004 conviction related to an insider-trading¹ investigation, but her personal image was so closely intertwined with her company that revenues and share prices still plummeted.

When she returned to MSO after her release, advertisers and broadcasters were quick to forgive the tall, blonde celebrity; they flocked back to her namesake magazine and even signed her to star in two new TV shows. Under the leadership of a new CEO backed by Stewart and her allies on the board, MSO seemed by 2006 to be headed for a recovery.

But new technology was undermining the company’s business model and serious threats loomed from competitors. It would be Stewart herself—a former model and caterer whose devotion to domestic perfection and luxury had made her a brand icon—that would be the central player in the outcome.

A Brief History of Martha Stewart Living Omnimedia

The seeds of Martha Stewart’s larger-than-life career were planted in early childhood. Born Martha Kostyra, the second of six children of Polish immigrant parents, she inherited her mother’s passion for cooking and sewing and her father’s love of gardening. Her father instilled in her “the quest for perfection, with any task,” she once told a reporter. “If I was laying a cobblestone path for him in the garden, it had to be lined up straight with a string. The stones had

¹ Insider trading is the purchase or sale of a public company’s stock or other securities by anyone with material knowledge about the company that is not publicly available. Insider trading is illegal in the United States because it is unfair to other investors who lack access to the information. Stewart was alleged to have received insider information from her stockbroker.

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to have the exact same amount of space between them.”² To her father, and to Martha, perfection in form and detail was synonymous with enduring value.

Stewart worked part-time as a model in high school and college and took a job as a stockbroker after graduation. A former boss said she was “fabulously successful.” But when the stock market crashed in 1974, she quit. According to her former boss, she couldn’t bear seeing people lose money on her advice.³ After marrying Andy Stewart (a lawyer and publisher of art books) in 1961, she returned to Barnard College and completed a degree in history and architectural history.

Stewart’s talent for decorating became apparent when she and her husband bought and restored an old farmhouse. She also built a successful catering business in her basement with a friend from her modeling days. When she catered a book release party for her husband, Stewart met Alan Mirken, head of Crown Publishing Group, who later contacted her to develop a cookbook. The result was her 1982 book *Entertaining*, a celebration of stylish party giving. Several more books and television appearances followed. Her 1987 book *Weddings* ignited a trend toward lavish wedding ceremonies and receptions in the United States. Mothers of the bride were soon toting the \$50 volume around under their arms.

Stewart had caught a wave. As women increasingly made strides in the workplace, yearning for home and hearth was on the rise. With her authoritative, patrician bearing, Stewart was able to elevate domestic skills to an art form. Many fans aspired to adopt her elegant style, and her do-it-yourself ethos provided new outlets for self-expression.

Stewart laid the cornerstones of her media empire in the early 1990s with the launch of her flagship magazine, *Martha Stewart Living*, in partnership with Time Inc., and a syndicated television show by the same name. She produced and hosted the show, preparing recipes in Julia Child’s stand-and-stir style and showing approval with her trademark comment, “It’s a good thing.” Another magazine, *Martha Stewart Weddings*, followed in 1994. Stewart sought help with operations from Sharon Patrick, a former McKinsey & Co. partner whom she met climbing Mount Kilimanjaro in 1993.

A shrewd negotiator, Patrick helped Stewart acquire control of her business from Time Inc. in 1997 and form Martha Stewart Living Omnimedia. Stewart and Patrick then caught another trend among retailers—a shift away from individual items toward entire categories of goods. Patrick negotiated a ground-breaking deal with Kmart, then the second-largest retailer in the United States, to sell branded Martha Stewart housewares and linens in its stores. The partnership generated big profits for MSO and left an indelible mark on merchandising by bringing tasteful design to low-cost consumer goods. The success of the arrangement paved the way for other low-cost, upscale branding efforts by stores like Target.

Stewart’s personal tastes, personality, and lifestyle were the context for everything at MSO. Her TV studio was a replica of her own kitchen. She harvested ingredients from her garden and refinished her lawn furniture on the show. Her maniacal devotion to detail and perfection instilled trust in her brand. “I wash the sheets myself. I count the stitches . . . We care that we’re not disappointing anybody,” she told a reporter.⁴ By the late 1990s, Stewart had become the nation’s

² *Wall Street Journal Magazine*, August 22, 2013.

³ Pamela Sebastian, “A Culinary Gilt Trip Is Worth a Fortune to Martha Stewart,” *Wall Street Journal*, December 15, 1989.

⁴ Michael Schrage, “Martha Stewart,” *Adweek*, February 14, 2000.

preeminent female brand name, inspiring comparisons to Calvin Klein, Tommy Hilfiger, and her personal role model, Ralph Lauren.⁵

As Stewart and Patrick began preparing to take the company public, analysts likened her fans to a cult. Some questioned the wisdom of basing a public company on one person's image. "If you are basing your entire public issue on that one name," one analyst said, "you have to question how you can broaden it so that the whole company does not suffer if the head person gets hit by a bus—or by a scandal."⁶ MSO promised in its prospectus to promote "a new generation of Martha Stewart Living experts" and to publicize other members of the creative team.

On the day of the IPO in 1999, it was Stewart herself who stood outside the New York Stock Exchange handing out scones and fresh-squeezed orange juice. Wall Street responded with equal warmth. The stock surged from the \$18 initial price to \$36, making Stewart America's first self-made female billionaire.⁷

At many companies, the board of directors provided oversight of strategic planning, in some cases by establishing a strategic planning committee to provide stability and continuity during leadership transitions. MSO's bylaws required four committees: audit, compensation, finance, and nominating and corporate governance. The bylaws also made the board responsible for monitoring the "principal risk exposures" of the company, and assigned oversight to the audit committee. Directors received training on risk management during an orientation session that included learning about MSO's officers, auditors, strategic plans, corporate governance, compliance programs, and code of ethics, and were given a corporate headquarters tour. Training beyond that was voluntary; MSO "encouraged directors to participate in education programs" to help them meet their responsibilities.

Because Stewart was not only chairman and CEO but also the controlling shareholder (**Exhibit 1**), she was able to name Patrick chief operating officer and appoint her as a director. She also invited her old friend Charlotte Beers, former CEO of the ad giant Ogilvy & Mather, onto the board.

Competition

By the 2000s, MSO was facing new competition and changing markets on all fronts. Rivals were taking share in lifestyle-related publishing, the source of 62 percent of MSO revenues. After Stewart cut ties with Time Inc., the Time-Warner unit launched a competing magazine, *Real Simple*, which appealed to a younger, less traditional audience than Stewart's by offering practical, time-saving tips for getting things done. Daytime television diva Oprah Winfrey followed with *O, the Magazine*. Meredith Corp., with a business mix similar to MSO's, including the biggest home-and-garden magazine, *Better Homes and Gardens*, was extending the brand into licensed products, including paint and furniture coverings.

⁵ Robin Pogrebin, "Master of Her Own Destiny," *New York Times*, February 8, 1998.

⁶ Diana B. Henriques, "Martha Stewart, the Company, Is Poised to Go Public. But Is It a Good Thing?" *New York Times*, October 12, 1999.

⁷ Patricia Sellers, "Remodeling Martha," *Fortune*, November 14, 2005.

In addition, changing technology was giving rise to a new generation of low-cost competitors. A 1996 Internet startup, TheKnot.com, posted rapid growth in online advertising and content for weddings, a core MSO competency. TheKnot.com soon spun off TheNest.com for newlyweds and TheBump.com for expectant parents. Established competitors, too, were expanding rapidly in e-commerce. Ralph Lauren Corp., also a designer of home and lifestyle products, partnered in 2004 with GSI Commerce, an e-commerce and technology provider, to sell its branded merchandise online, an alliance that generated hundreds of millions of dollars in sales for Lauren.

In broadcasting, the source of 13 percent of MSO's revenues, ad sales were under pressure from online competition and shrinking audiences for daytime TV. Martha Stewart imitators were starting lifestyle cable channels and programs. Oprah Winfrey, MSO's competitor in publishing, helped launch a competing celebrity chef named Rachael Ray, whose "30-minute meals" appealed to time-pressed young consumers.

MSO faced its most formidable competition in an area Wall Street regarded as the company's most promising—merchandising, which accounted for 9 percent of its revenues. Retailing juggernauts Walmart and Target were expanding fast, threatening to crush Kmart, MSO's biggest sales outlet.

A Grand Vision

Management's strategic vision rested on what Stewart, quoting the ancient Greeks in MSO's 2001 annual report, elegantly called *synergia*, or synergy. By uniting publishing, television, merchandising, and Internet businesses under one umbrella, Stewart predicted that results would exceed the sum of the parts as each business generated advertising, sales, or subscriptions for all the others. To make the plan work, Patrick promised to sell more multimedia packages, develop new TV shows, and reduce MSO's heavy dependence on publishing.

A big jump in ad pages for *Martha Stewart Living* drove a 23 percent increase in revenues during 2000, MSO's first full year as a public company. The company's share price surged to within \$2 of the 1999 high of \$36, more than 45 times earnings.

But signs of softness in revenues and profit margins were emerging. Revenue growth slowed to just 2 percent in 2001 and net income fell 16 percent in 2000 and edged just 3 percent higher in 2001. Ratings faltered at MSO's flagship show, "Martha Stewart Living." Kmart, source of 17 percent of MSO's total revenues, filed for bankruptcy protection in 2002, then sued MSO and won big cuts in guaranteed royalties and advertising. Patrick pledged to find other retail outlets to replace it.

Online, the company was delivering features, recipes, and how-to content on MarthaStewart.com with the intent of generating revenue from advertisers as well as sales of the 2,800 products available there, which ranged from bedding to soap-making kits. However, the website was losing a lot of money. Promising to drive the website to profitability, Patrick hired new management as part of a \$7 million company restructuring in 2001. MSO also acquired the Wedding List, a gift registry and retailer operating online and in showrooms.

As MSO's chief talent, Stewart drew total 2000 compensation of \$2.8 million (**Exhibit 2**). That amount was down from \$4.7 million the year before the IPO, but analysts said her pay was still out of line with revenues. Stewart also received \$2 million a year or more under an

“intangible assets licensing agreement” that paid her for corporate use of her image and homes in promotions and demos. Stewart expensed many other parts of her life, too, including a weekend driver and a personal trainer. She said all the spending was necessary to maintain the quality for which her brand was known.

There was no question that Stewart and the brand were synonymous. The question on the minds of investors and consumers alike was: Was Stewart creating a powerful brand that would outlive her, like Coco Chanel, or was she more like Laura Ashley, the British fabric designer whose 1985 death thrust her company into a crisis?

A Crippling Blow

In 2002 the media reported that Stewart was the target of an insider-trading investigation in connection with her sale of personal stock in ImClone Systems Inc., in advance of bad news about a key drug. Stewart was indicted in June 2003. The Securities and Exchange Commission also filed civil charges against her, alleging securities law violations. Stewart was convicted in 2004 of conspiracy, obstruction of justice, and making false statements to investigators, and she resigned as chairman and CEO of MSO.

MSO’s brand equity took a beating. The *New York Post* ran a photoshopped picture of Stewart in prison stripes on Page One. Cable channels dropped Stewart’s show. Publicity about her legal troubles led to a 63 percent drop in ad pages at *Martha Stewart Living*, while competitors’ magazine ad sales rose sharply. Meanwhile, *MarthaStewart.com* was still losing money. Patrick stepped in as CEO, laying off 40 percent of MSO’s employees and slashing product offerings by 60 percent. She then shuttered and wrote off the Wedding List acquisition just 15 months after making the deal. MSO’s net income plunged 67 percent in 2002 on revenue gains of 2 percent, then sank into the red the next year (**Exhibit 3**). For the next two years management blamed disappointing results on continued fallout from the scandal.

Patrick tried to distance the company from Stewart, explaining that “the strategy has been to evolve the Martha Stewart brand from expert personality to quality products to trusted brand labels.”⁸ In 2003 MSO launched two non-Martha offerings—*Everyday Food*, a magazine featuring quick recipes for younger consumers ages 25 to 49, and a TV show featuring pet expert Mark Marrone. The company also bought *Body + Soul* magazine and *Dr. Andrew Weil’s Self Healing* newsletter in 2004 as the basis for a new “natural living” brand of lifestyle publications and products. The size of Stewart’s name on the cover of *Martha Stewart Living* was reduced, and some outside directors considered changing the name of the company.⁹

Outside directors also took steps to strengthen the board. Jeffrey Ubben, an investor and MSO’s second-largest shareholder, became chairman.¹⁰ After complaining that the board lacked enough heavy hitters, Ubben recruited two new independent¹¹ directors, Thomas Siekman, a

⁸ “Martha Stewart, Hot Potato,” *BusinessWeek*, March 3, 2003.

⁹ Sellers, “Remodeling Martha.”

¹⁰ Matthew Rose, “Martha Stewart Living Names Patrick CEO, Ubben Chairman,” *Wall Street Journal*, June 5, 2003.

¹¹ Among other prohibitions, MSO rules barred designating as independent any directors who were current or recent employees, who had recently received more than \$120,000 in compensation from the company, or who had been employed by a company that recently made or received payments of more than \$1 million from the company. Directors whose immediate family members met any of the criteria also were barred from being classified as independent.

former general counsel at Compaq Computer, and Bradley Singer, a former Goldman, Sachs & Co. banker and CFO of American Tower Corp.¹² Former Sears CEO Arthur Martinez, who had joined the board in 2001, was elevated to lead director.

Frustrated over efforts to distance the company from her, Stewart took steps to use her ownership stake, which comprised 94 percent of MSO's voting shares at the time, to regain control. A few months earlier, a friend had introduced her to Charles Koppelman, a former producer and music-industry executive who had served as an advisor to other executives in trouble. He had served as acting chairman of Steven Madden Ltd. from 2000 to 2004 while the shoe retailer's founder and CEO did time for securities fraud and money laundering.¹³ Koppelman had also helped entertainer Michael Jackson with his financial problems.

Koppelman advised Stewart to “take control of what you can control—your business.”¹⁴ A few days after her sentencing in July 2004, Stewart began remaking the board, adding Koppelman and Susan Lyne, former head of Walt Disney's ABC Entertainment (Exhibit 1). Lyne had a strong television and magazine background and had helped develop programs that would soon become huge hits, including “Desperate Housewives” and “Lost.” Three other new directors joined the board, including Wenda Harris Millard, chief sales officer at Yahoo! Inc.

Another new director was Rick Boyko, former co-president and chief creative officer at Ogilvy & Mather during Beers' last two years at the agency, when she was chairman emeritus. Boyko was now employed as managing director of a graduate advertising program at Virginia Commonwealth University, a program to which MSO had previously made charitable contributions. MSO directors, citing bylaws giving directors the right to determine independence “based on all the facts and circumstances,” declared Boyko independent and assigned him to the compensation committee.¹⁵

Former Sears CEO Martinez, who had been serving as lead director, stepped down. Ubben also left the board.

Two weeks before Stewart reported to a minimum-security federal prison camp in West Virginia to begin serving her five-month prison sentence, the newly reconstituted board renewed her employment contract through 2009. Her base salary was continued at \$900,000, with a bonus of up to 150 percent of salary.¹⁶ The board also reduced fees for use of Stewart's homes and image, from \$2.5 million to \$750,000. Her pay was withheld while she was in prison.

Tensions between Stewart and Patrick had been mounting as MSO's losses deepened. Patrick resisted Stewart's urging that she hire a No. 2, saying she could handle the job herself.¹⁷ One week after Patrick reported in October 2004 that MSO's third-quarter net loss had tripled and the fourth-quarter loss would be worse than expected (**Exhibit 4**), the board fired her. Lyne was

¹² James Bandler, “Martha Stewart's Ubben Resigns Post of Chairman,” *Wall Street Journal*, July 28, 2004.

¹³ *Ibid.*

¹⁴ Sellers, “Remodeling Martha.”

¹⁵ The New York Stock Exchange required companies to “broadly consider all relevant facts and circumstances” when determining the independence of a director, including “charitable and financial relationships, among others.” NYSE Manual, Sec. 3, “Corporate Responsibility,” <http://nysemanual.nyse.com> (accessed December 9, 2013).

¹⁶ Sellers, “Remodeling Martha.”

¹⁷ James Bandler and Kara Scannell, “Martha Stewart Living Names Lyne to Succeed Patrick as CEO,” *Wall Street Journal*, November 12, 2004.

named as her replacement, taking over just as the show she had helped develop at ABC, “Desperate Housewives,” became TV’s biggest new hit.¹⁸

Prison rules prevented Stewart from making decisions and conducting business during her incarceration, but Lyne and Koppelman visited her a half-dozen times and were allowed to tell her what was going on at MSO.¹⁹ After she was released, however, she was allowed to work 48 hours a week during her five months of home confinement. Stewart had been barred from serving as a director or officer of the company until August 2011 as part of a settlement with the SEC, so when she returned to work in March 2005 she assumed the title of “founder.”

At the time of Stewart’s return, MSO ad sales already were recovering. Kmart’s 2004 purchase of Sears sparked rumors that Martha Stewart products would be sold in Sears stores, driving MSO share price to a new high of \$37. A poll commissioned by Lyne found that half of American women still described themselves as “supporters” of Stewart.²⁰ Lyne later heralded the founder’s return in the annual report as a sign that “our capacity to plan (is) no longer clouded.” In June 2005 Koppelman, Stewart’s advisor and confidant, became chairman of the board.

Efforts to diversify MSO’s brands away from the company’s namesake soon lost momentum. Excitement was mounting about “The Apprentice: Martha Stewart,” a prime-time reality TV show on NBC from Mark Burnett, the creator of “The Apprentice” with Donald Trump.²¹ The original series had turned the irascible Donald Trump into a household name; why could it not do the same—or more—for Stewart? NBC also agreed to broadcast a new syndicated daytime TV show hosted by Stewart.

Although analysts worried that Stewart could become overexposed, she told a reporter for *Fortune* magazine in 2005, “I have learned that I really cannot be destroyed.”²²

Glimmers of Hope

In 2005 the company posted its largest-ever annual loss—\$75.8 million. However, in the annual report Lyne and Koppelman chose to focus instead on MSO’s 12 percent revenue increase as evidence that the “turnaround is real and the avenues for growth are vast.” Lyne, who was well-regarded inside the company and helped restore investor confidence, was praised by Stewart for her “intelligent surehandedness, congeniality, and high-mindedness.”²³

Despite an expanding economy, however, MSO posted another loss in 2006. The shift in publishing toward shorter online content was gaining momentum. Advertisers were dividing their dollars among a growing diversity of media. MSO was losing ground with younger consumers to rising stars such as 37-year-old Rachael Ray, who launched not only a series of cookbooks but also a magazine and her own syndicated daily TV show. MSO targeted younger consumers with the 2006 launch of a new magazine, *Blueprint*, but it flopped within a year.

¹⁸ Sellers, “Remodeling Martha.”

¹⁹ Ibid.

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³ MSO Annual Report 2005, p 7.

Reality TV productions pitting celebrity chefs against each other in high-energy cook-offs were making Stewart's stand-and-stir style seem a little passé. Stewart's 2005 foray into reality TV, "The Apprentice: Martha Stewart," featured Koppelman as her cigar-chomping sidekick. Unfortunately, it drew only half as many viewers as Trump's show and was quickly canceled. Stewart's other new show, "Martha," produced 63 percent of MSO's broadcasting revenue but posted losses. Koppelman, who was paid as a deal consultant to the company while also serving as chairman, helped strike other media deals, including one for a Martha Stewart Living satellite radio channel and another with Warner Home Video to produce DVDs from past TV shows.

Competitors were expanding in merchandising as well. In 2007 Meredith Corp. signed a multi-year agreement to sell Better Homes and Gardens products through Walmart. But the looming loss of the partnership with Kmart posed a much greater threat to MSO. Kmart had struggled for years, during which it had closed 600 stores, but it still generated 89 percent of MSO's merchandising revenue. MSO was able to extend its licensing agreement with Kmart in 2005, but not without additional cuts in guaranteed royalties and advertising.

Lyne's strategy was to capitalize on MSO's high-quality product design by landing more high-margin, low-cost licensing deals in new categories. "Virtually anything having to do with the home . . . is ours to own," she said.²⁴ She recruited Robin Marino, former president of the designer-clothing maker Kate Spade Inc., to head merchandising, and the team lined up a pivotal multi-year deal in 2007 with Macy's to sell dinnerware and furniture. Martha Stewart products soon became Macy's biggest sellers in the housewares category, but the contract was less lucrative than Kmart's and gave Stewart less visibility and influence.

MSO signed a food and kitchenware licensing agreement with celebrity chef Emeril Lagasse, an aging Food Network star who had helped pioneer the reality TV format. The company also partnered with a homebuilder to license entire houses—custom versions of Stewart's own homes. Other merchandising deals were planned for products from closet organizers to light fixtures. Analysts said MSO risked diluting its brand, but by 2007, MSO's merchandising revenues were up 22 percent.

Lyne declared the web "a platform we must master," and pledged to make MarthaStewart.com the "go-to lifestyle destination on the web."²⁵ MSO relaunched the site in 2007 with new blogs and advanced search and community-building tools. Lyne moved more how-to content online and struck deals with 1-800-FLOWERS to sell branded flowers and with Kodak for digital greeting cards. MSO also began sharing content with Yahoo! and the Food Channel, and bought a 40 percent stake in Wedding Wire, an online marketplace and community site.

In 2007 the predicted turnaround seemed within reach. Ad pages in *Martha Stewart Living* were up, aided by growth in the natural-living magazine *Body + Soul*. MSO's revenues rose 54 percent between 2005 and 2007 to a new high of \$327.9 million, and in 2007 the company posted a \$10.3 million profit, its first since 2002.

The start of a multi-year recession in 2008 hit MSO's markets hard. Home product sales sagged as the housing collapse spiraled out of control. The relaunched website was falling short of expectations. Ad rates softened industry-wide, which reversed the brief recovery in ad pages at

²⁴ MSO Annual Report 2005, p. 5.

²⁵ MSO Annual Report 2006, p. 5.

Martha Stewart Living. Mindful that MSO still depended on publishing for the majority of its revenue, Wall Street drove the stock to new lows near \$5 a share.

A dispute over Stewart's compensation reportedly led to major changes in the board. The 2004 contract that reduced annual fees for use of her homes and image was set to expire in 2009, but Stewart began pushing the board in 2008 for "make-whole" payments, or payments that would make up for the reduction. Two respected outside directors—Jill Greenthal, a senior executive at the Blackstone Group and an experienced advisor to media companies, and Ubben's recruit, Bradley Singer—resigned in March 2008.²⁶ Ubben's second recruit, Thomas Siekman, left the board three months later. Stewart's friend Charlotte Beers, who had left the board in 2001 to become Under Secretary for Public Diplomacy and Public Affairs during the administration of President George W. Bush, came out of retirement to fill one of the slots, and the other two vacancies were filled by William Roskin, a human relations consultant and former Viacom executive, and Todd Slotkin, a portfolio manager for a private equity firm.

Beers took over from Siekman as head of the board's nominating and corporate governance committee, which MSO bylaws charged with overseeing succession planning—a potentially challenging role when Stewart showed little inclination to identify or develop a successor.

The reconstituted board swiftly approved a compensation package that included a \$3 million payment to Stewart, which the company alternately labeled a make-whole payment for rights to her homes and image from September 2007 through August 2009, and a "retention" bonus. The package also included a \$100,000 "non-accountable expense allowance," \$193,066 in "talent fees," and \$33,520 to pay people who worked for Stewart.

Amid reports of mounting tensions with Stewart, Lyne's resignation soon followed. The board implemented a complicated setup in her wake, naming two co-CEOs—Robin Marino, the merchandising chief, and Wenda Harris Millard. A former chief sales officer at Yahoo! and a fixture in the advertising business, Millard had joined the board during Stewart's 2004 board shakeup and was later hired to head MSO's media business. The board appointed three more officers—Koppelman, Stewart, and MSO's chief creative officer Gael Towey—to serve in a three-person "office of the chairman." The company said Stewart's position did not violate the terms of her 2006 agreement with the SEC.

Directors continued to wrestle with Stewart's new pay package into 2009. Stewart added two more members to the board, including her former hairdresser, Frederic Fekkai, founder of the eponymous hair-care product company. Known for his skill in formulating fine shampoos and styling spray, Fekkai was seated immediately on the compensation committee responsible for overseeing Stewart's pay, along with two more newcomers, Roskin and Slotkin.

When MSO posted a \$14.6 million loss in 2009 (**Exhibit 5**), Stewart's total compensation hit \$9.8 million, including the retention bonus, \$2.6 million in intangible-asset fees, a \$178,663 "talent fee," \$178,352 for security services, \$49,440 for a weekend driver, and a \$100,000 "non-accountable expense allowance." During the four years ending in 2012, a period when the company's losses totaled \$96 million, Stewart collected nearly \$27 million.

Koppelman was asked after Lyne's departure if Stewart's elevation to the office of the chairman portended a larger management role for her. He replied that it would be "hard for

²⁶ James B. Stewart, "A Brand Icon in Need of Some Oversight," *New York Times*, November 10, 2012.

Martha to be even more involved.” He described Stewart and himself as “the glue” that would hold the awkward new management setup together.²⁷ MSO shares fell 6 percent on the news.

Narrowing Options

The glue did not hold.

Co-CEO Wenda Millard resigned early in 2009 after clashing with Stewart. The remaining co-CEO, Robin Marino, returned to her former role as head of merchandising and was given a seat on the board. Koppelman became executive chairman and principal executive officer and Stewart took a new title: chief editorial, media, and content officer.

MSO shares plummeted to a new low of \$1.60 amid renewed criticism that MSO’s cost structure was out of line with revenue. The advertising slump had hit MSO’s publishing business hard, and subscriptions and newsstand sales fell. The Kmart agreement expired in 2010, reducing total revenue by 10 percent. The company ended its partnership with 1-800-FLOWERS and wrote off its acquisition of the Andrew Weil newsletter.

A flurry of new licensing deals partly offset the losses. These included home-and-garden gear at Home Depot, pet products at PetSmart, branded foods at Costco, Emeril Lagasse cutlery and steaks, and “Martha Stewart Weddings” through Sandals resorts. Merchandising revenue began to recover, causing Koppelman to declare in a 2011 letter to shareholders, “Our strategy is beginning to work.”

Stewart’s daytime TV show on NBC was canceled due to poor ratings, but Koppelman looked for new ventures in broadcasting. He struck what he called a ground-breaking agreement with Hallmark Channel for shows with pet expert Mark Morrone, chef Emeril Lagasse, and a new personality from within MSO, food director Lucinda Scala Quinn. Stewart began hosting two new TV shows, “Martha Stewart Cooking School” and “Martha Bakes.”

Stewart’s and Koppelman’s daughters teamed up to host a short-lived satellite-radio talk show and a poorly received cable TV program called “Whatever Martha,” in which they made fun of old Martha Stewart shows. Stewart’s daughter was paid as much as \$407,680 a year as a broadcast talent, and Koppelman’s daughter received as much as \$350,675 a year. MSO also employed Stewart’s sister-in-law as a senior vice president for as much as \$200,633 a year; her brother-in-law as property manager for as much as \$146,000 a year, and her sister as a blogger for as much as \$81,000 a year.

Meanwhile, management cut employee head count by 8 percent in a company-wide reorganization.

²⁷ Stephanie Rosenbloom, “Chief Executive Resigns at Martha Stewart Living,” *New York Times*, June 12, 2008.

A Turning Point

The ban on Stewart's serving as a corporate officer expired in 2011, freeing her to take the CEO slot. The 69-year-old rejoined the board, but decided not to take the CEO job, saying she was too busy with her TV shows, cookbooks, and public appearances.

With MSO shares trading as low as \$2.77, management hired investment bankers in 2011 to explore taking the company private. But Stewart rejected the plan, saying the proposed valuation was too low. For Stewart, it was a personal affront: Wall Street failed to appreciate her value and that of her brand. She told a friend she deserved twice her salary and the stock should be trading at \$20, declaring, "I am this company."²⁸

MSO turned again to the media industry for a new leader, recruiting Lisa Gersh as president and chief operating officer in 2011. A co-founder of Oxygen Media, Gersh had developed content appealing to the younger women who had proven so elusive for MSO. In her new role she reported to Koppelman and was expected to be appointed CEO within 20 months.

The strategic course set by her predecessors had been far from consistent; first Lyne and then Koppelman had veered from diversifying the company's brands to reduce reliance on Stewart, a path set by Sharon Patrick. Instead, each had focused on developing brand extensions and using MSO's unprofitable broadcast operations as a tool to market them.

A flurry of activity followed as Gersh undertook MSO's first real restructuring. She laid off 12 percent of the company's 600 employees, cut \$12.5 million in costs by closing MSO's television production studio, terminated Koppelman's programming agreement with the Hallmark Channel, and ended the live audience for "The Martha Stewart Show." Amid declines in advertising and newsstand sales, Gersh axed two non-Martha magazines, *Everyday Food* and *Whole Living*.

The restructuring left MSO in 2011 looking remarkably like the company that had gone public twelve years earlier—dependent on its publishing business for 62 percent of its revenues. Although digital properties accounted for nearly one-fifth of ad revenue, most of the rest came from two print magazines founded in the early 1990s, *Martha Stewart Living* and *Martha Stewart Weddings*. Gersh also redesigned MarthaStewart.com, put more TV programming and how-to content on the site, and built apps for mobile devices. Traffic rose, and the site won awards for content and quality.

Like her predecessors, Gersh chased new merchandising deals. She launched a new line of branded office products and expanded Martha Stewart crafts offerings. She also vowed to expand into the international markets that had proven elusive for MSO; whereas Meredith Corp. had publishing agreements in 40 nations, MSO's overseas expansion had mostly stalled after the failure of a 2001 agreement to publish a magazine and license products in Japan.

Gersh's crowning achievement, it seemed, would be the December 2011 signing of a new licensing deal with department store J. C. Penney to open Martha Stewart boutiques inside Penney stores. Penney paid \$38.5 million for a 16.6 percent stake in MSO, strengthening the company's balance sheet, and two Penney executives took seats on MSO's board (see **Exhibit 6**).

²⁸ Stewart, "A Brand Icon in Need of Some Oversight."

However, the deal raised new questions on Wall Street—the agreement with Penney covered similar products as the 2007 agreement with Penney’s archrival, Macy’s.²⁹ Gersh claimed the Penney product lines would be completely different from those sold in Macy’s, but two weeks after exercising its option to renew the agreement with MSO, Macy’s sued to block the Penney deal.

Macy’s CEO Terry Lundgren, who said he had regarded Stewart as a friend, testified during the trial that he was “completely shocked and blown away” when Stewart broke the news to him by phone the day before the Penney deal was announced. When Stewart tried to persuade him that “this was going to be good for Macy’s,” Lundgren said, he hung up on her.³⁰ After an embarrassing public trial and a court order to renegotiate the deal, J. C. Penney and MSO reduced the product categories covered, and Penney gave up its MSO ownership stake and seats on the board.

More turmoil erupted in mid-2012 when Stewart dumped her longtime ally and confidant, Charles Koppelman, telling a reporter that “he was not, because of his experience, the right person” to run the company.³¹ Upon his departure, Koppelman told a reporter, “It was never my intention or intent to run Martha’s company. I just wanted to help Martha regain control of the company that she almost lost. And I believe I accomplished that.”³² The 71-year-old Stewart became non-executive chairman and chief creative officer, blaming the company’s poor performance on legal troubles that kept her partly on the sidelines. The board extended her employment contract to 2017. Gersh, president and chief operating officer, assumed the additional title of CEO in July 2012.³³

Months later, amid reports of tensions with Stewart, Gersh announced she would resign effective February 2013, just seven months after becoming CEO—making her MSO’s fifth CEO in a decade. The company said it would look for a CEO who could build the merchandising business.

Despite Gersh’s deep cuts, MSO’s costs rose 6 percent in 2012, mostly because of costs related to layoffs and severance pay. New licensing agreements increased merchandising revenue by 18 percent, but total revenues plunged 11 percent to a nine-year low. In a year when MSO’s net loss exceeded \$56 million, Stewart collected \$5.5 million in total compensation. By year’s end, MSO shares traded as low as \$2.28.

At a Crossroads

At 72, Stewart in 2013 was enjoying a revival of interest among young do-it-yourself consumers and entrepreneurs. MarthaStewart.com traffic from 18- to 34-year-olds rose, and its

²⁹ James B. Stewart, “For Penney and Chief, Houseware Headache,” *New York Times*, March 9, 2013.

³⁰ *Ibid.*

³¹ Merissa Marr, “Domestic Discord: Martha Stewart Seeks Perfect Touch for Her Empire,” *Wall Street Journal*, August 24, 2012.

³² *Ibid.*

³³ *Ibid.*

content was among the most oft-shared among its rivals on the social site Pinterest. MSO's mobile apps also were popular with the same group.³⁴

Stewart published her seventy-ninth book in 2013, *Living the Good Long Life*. She landed cameo roles on such TV shows as “2 Broke Girls” and “Law and Order: Special Victims Unit.” The hip-hop star Usher had quoted Stewart in interviews and asked her advice on how to build a treehouse.³⁵ She was frequently sought out by journalists for celebrity roundups.

But at MSO, the CEO job remained open well into 2013. The company's 22-year-old flagship magazine, *Martha Stewart Living*, with circulation of 2.1 million, barely kept pace with rivals *Real Simple*, with 2.1 million, or *O, The Oprah Magazine*, with 2.4 million. The traditional giants, *Better Homes and Gardens*, with 7.6 million readers, and *Good Housekeeping*, with 4.4 million, continued to dominate the field.³⁶

Citing a desire to help the company return to profitability, Stewart took a small pay cut in 2013, from \$2 million to \$1.8 million, plus a \$300,000 reduction in the \$2 million fee for use of her home and image. She expressed no interest in succession planning: “I'm convinced she'll be carried from her portable kitchen to her coffin,” a friend told a reporter.³⁷

Critics of MSO said the brand lost its way by wandering into product lines that damaged its image, such as cleaning fluids and dog poop bags. Although there was still “significant life-blood” left in the Martha Stewart brand, according to one of the few analysts still following the company, “we continue to think MSO is a ‘show-me’ story—and a potential takeover target.”³⁸

³⁴ Christine Haughney, “Martha Stewart Clicks with a Tattooed Crowd,” *New York Times*, November 25, 2012.

³⁵ Marr, “Domestic Discord.”





³⁶ Alliance for Audited Media, <http://auditedmedia.com> (accessed October 6, 2013).

³⁷ Stewart, “A Brand Icon in Need of Some Oversight.”

³⁸ David Bank, Nicholas Caplan, and Kristina Warmus, “Martha Stewart Living Continues to Transition,” RBC Capital Markets, August 5, 2013.

Exhibit 1: Martha Stewart Living Omnimedia Board of Directors, 2003–2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Charlotte Beers										
Rick Boyko										
Frederic Fekkai										
Lisa Gersh										
Michael Goldstein										
Jill A. Greenthal										
Arlen Kantarian										
Charles Koppelman										
Michael Kramer										
Susan Lyne										
Arthur C. Martinez										
Wenda H. Millard										
Darla D. Moore										
Sharon L. Patrick										
William A. Roskin										
Naomi O. Seligman										
Thomas Siekman										
Bradley E. Singer										
Claudia Slacik										
Todd Slotkin										
Margaret Smyth										
Martha Stewart										
Jeffrey W. Ubben										
Daniel Walker										

-  Board member
-  Chairman
-  Non-executive chairman
-  J. C. Penney representative

Source: MSO Proxy Statements.

Exhibit 1 (continued)

DIRECTOR BIOS

Charlotte Beers: Former chairman of J. Walter Thompson Worldwide; previously chairman and CEO of Ogilvy & Mather and chairman emeritus of Ogilvy & Mather Worldwide Inc.; Under Secretary for Public Diplomacy and Public Affairs for the George W. Bush Administration from 2001 to 2003. Identified as a candidate for the board by Martha Stewart.

Rick Boyko: Managing director of the VCU Adcenter, a graduate advertising program at Virginia Commonwealth University; formerly co-president and chief creative officer of Ogilvy & Mather, New York. Identified as candidate for the board by Martha Stewart.

Frederic Fekkai: Founder of Fekkai, a luxury hair-care product company with seven hair salons in the United States; founder and brand architect for the Fekkai brand at Procter & Gamble, which purchased the company in 2008. Identified as a candidate for the board by Martha Stewart.

Lisa Gersh: President and chief operating officer of MSO from 2011 to 2013 and CEO of the company from 2012 to 2013. Previously president, strategic initiatives, of NBC Universal and managing director and CEO of The Weather Channel Companies. Previously co-founder of Oxygen Media LLC, serving as president and chief operating officer for nine years.

Michael Goldstein: Chairman of Toys “R” Us Children’s Fund Inc., a charitable foundation. Previously chairman of the board, vice chairman, and CEO of Toys “R” Us Inc. Identified as a candidate for the board by Martha Stewart.

Jill A. Greenthal: Senior managing director of the Blackstone Group; previously co-head of the global media group and a member of the executive board of investment banking at Credit Suisse First Boston. Previously co-head of the Boston office of Donaldson, Lufkin and Jenrette and head of the media group at Lehman Bros.

Arlen Kantarian: Former CEO of professional tennis for the United States Tennis Association; previously president and CEO of Radio City Entertainment and vice president, marketing, for the National Football League.

Charles Koppelman: Executive chairman and principal executive officer of MSO from 2009 to 2011. Chairman and CEO of CAK Entertainment Inc., a music and entertainment business. Previously chairman and CEO of EMI Music Publishing; chairman and CEO of EMI Records Group, North America; and chairman of Steve Madden Ltd.

Michael Kramer: Chief operating officer for J. C. Penney Co. Previously president and CEO of Kellwood Co., executive vice president and chief financial officer of Abercrombie & Fitch Co., and former chief financial officer of Apple Inc.’s retail operations.

Susan Lyne: President and CEO of MSO from 2004 to 2008. Previously president of ABC Entertainment and executive vice president of Walt Disney Pictures and Television Inc. Identified as a board candidate by a third-party search firm.

Exhibit 1 (continued)

Arthur C. Martinez: Former chairman and CEO of Sears Roebuck and Co.; previously chairman and CEO of Sears Merchandising Group and vice chairman of Saks Fifth Avenue.

Wenda Harris Millard: Co-CEO of MSO from 2008 to 2009; previously chief sales officer at Yahoo! Inc. and chief Internet officer at Ziff Davis Media.

Darla D. Moore: Executive vice president of Rainwater Inc, a private investment firm; previously a managing director of Chase Bank. Chairwoman and founder of The Palmetto Institute, a private policy research group.

Sharon L. Patrick: President and chief operating officer of MSO from 1997 to 2004; CEO from 2003 to 2004; previously president of The Sharon Patrick Company, a strategic consulting firm; president and chief operating officer of Rainbow Programming Holdings, a unit of Cablevision Systems Development, and a principal at McKinsey and Co. leading the media and entertainment practice.

William A. Roskin: Founder of Roskin Consulting, specializing in media-related human relations; previously a senior advisor and senior executive in charge of human resources and administration at Viacom Inc., and senior vice president, human resources, at Coleco Industries Inc.

Naomi O. Seligman: Co-founder of Ostriker von Simson Inc., an e-commerce consultancy; previously co-founder of Research Board Inc., an information technology research group.

Thomas Siekman: Of counsel for Skadden, Arps, Slate, Meagher & Flom LLP; previously senior vice president and general counsel of Compaq Computer Corp. and senior vice president and general counsel of Digital Equipment Corp.

Bradley E. Singer: Chief financial officer and treasurer of American Tower Corp.; previously an investment banker in the communications, media, and entertainment group at Goldman, Sachs & Co., and chief financial officer at Clyde's Restaurant Group.

Claudia Slacik: CEO, treasury and securities services, Europe, Middle East, and Africa, at JPMorgan Chase; previously chief financial officer for the group; global head of client strategy for Citigroup's \$10 billion global transaction services group; global head of trade services and finance at Citigroup; and vice president, strategic planning, at World Color Press, one of KKR's original LBOs.

Todd Slotkin: Portfolio manager of Irving Place Capital, an institutional private equity firm; previously managing director and co-head of Natixis Capital Markets Leveraged Finance business; executive vice president and chief financial officer of MacAndrews & Forbes Holdings Inc.; and chief financial officer of M&F Worldwide Corp.

Margaret Smyth: Former vice president and chief financial officer of Hamilton Sundstrand, a unit of United Technologies Corp.; previously vice president and corporate controller of United Technologies Corp., and vice president and chief accounting officer of 3M Corp.

Exhibit 1 (continued)

Martha Stewart: MSO founder and chief editorial, media, and content officer. Previously chairman and CEO from 1996 to 2003; author, creator of *Martha Stewart Living* magazine, television host.

Jeffrey W. Ubben: Founder and managing partner of VA Partners LLC, an investment partnership; previously managing partner of Blum Capital and a portfolio manager for Fidelity Investments.

Daniel Walker: Chief talent officer for J. C. Penney Co.; previously chief talent officer for Apple Inc. and vice president, human resources, for The Gap Inc.

Source: MSO Proxy Statements.

Exhibit 2: Martha Stewart Living Omnimedia Selected Key Executive Compensation (\$)

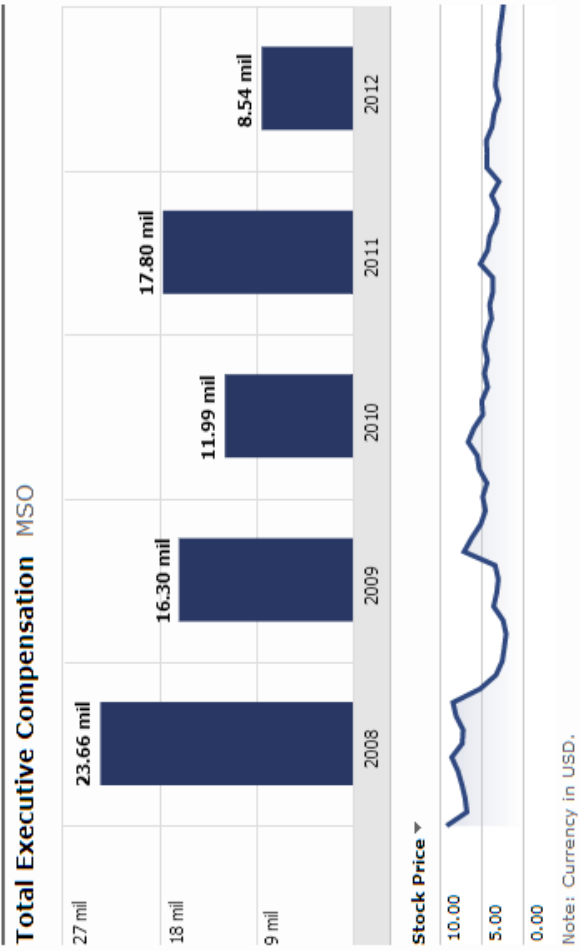
	2012	2011	2010	2009	2008	2007	2006	2005
Martha Stewart Founding Chairman and CEO	5,460,406 ^a	5,501,800	5,907,387	9,784,505 ^b	7,018,336	2,061,854	2,096,176	2,226,365 ^c
Susan Lyne President and CEO					1,671,633	3,934,693	4,405,782	1,333,622
Charles Koppelman Executive Chairman, Prin Exec Off		3,785,542	2,268,225	2,122,062	8,016,257			
Lisa Gersh President and COO	1,511,625 ^d	3,759,903						
Robin Marino President and CEO, Merchandising			1,711,311	1,418,510	2,498,228 ^e	1,709,492	1,461,028	2,032,539
Wenda Harris Millard President, Media				734,095	2,325,020 ^e	2,718,631		

Notes:^a Founder, Chief Creative Officer^b Chief Editorial, Media and Content Officer^c Founder^d Additional title of Chief Executive Officer^e Co-Chief Executive Officer

Source: MSO Proxy Statements.

Exhibit 2 (continued)

2012 Executive Compensation	1-Year % Change	Compensation vs. Performance (1-Year % Change)
Total Compensation	↓ -52.01 %	CEO Compensation
\$8,540,439		Stock Return
		Revenue
		Return on Equity
		Net Income
		-44.32%
		-10.86%
		-



Source: Morningstar.

Exhibit 3: MSO Financial Statements, 1998–2002 (\$ in thousands, except per share data)

	2002	2001	2000	1999	1998
REVENUES					
Publishing	182,600	177,422	175,774	142,993	124,172
Television	26,680	29,522	32,464	30,590	23,351
Merchandising	48,896	35,572	24,345	20,200	15,004
Internet/direct commerce	36,873	46,094	49,739	36,004	14,673
Total revenues	295,049	288,610	282,322	229,787	177,200
Operating income (loss)	19,993	37,064	31,707	22,322	27,385
Income (loss) from continuing operations	13,314	23,615	21,278	25,569	23,806
Loss from discontinued operations	(2,909)	(1,709)			
Cumulative effect of accounting change	(3,137)				
Net income (loss)	7,268	21,906	21,278	25,569	23,806
Pro forma net income (loss)	7,268	21,906	21,278	11,692	12,989
PER SHARE DATA					
<i>Earnings (loss) per share:</i>					
Basic—Income (loss) from continuing operations	\$0.27	\$0.49	\$0.44		
Basic—Loss from discontinued operations	\$(0.06)	\$(0.04)			
Basic—Cumulative effect of accounting change	\$(0.06)				
Basic—Net income (loss)	\$0.15	\$0.45	\$0.44		
Diluted—Income (loss) from continuing operations	\$0.27	\$0.49	\$0.43		
Diluted—Loss from discontinued operations	\$(0.06)	\$(0.04)			
Diluted—Cumulative effect of accounting change	\$(0.06)				
Diluted—Net income (loss)	\$0.15	\$0.45	\$0.43		
<i>Weighted average common shares outstanding:</i>					
Basic	49,250	48,639	48,678		
Diluted	49,343	49,039	49,623		
FINANCIAL POSITION					
Cash and cash equivalents	131,664	68,076	80,320	58,654	24,578
Short-term investments	47,286	73,086	47,105	96,095	
Total assets	324,542	311,621	297,414	281,771	125,372
Long-term debt					27,650
Shareholders' equity	236,635	222,192	196,116	199,402	36,815
OTHER FINANCIAL DATA					
Cash flow provided by (used in) operating activities	38,042	19,389	39,538	28,304	17,524
Cash flow provided by (used in) investing activities	21,493	(34,040)	10,922	(102,393)	(341)
Cash flow provided by (used in) financing activities	4,053	2,407	(28,794)	108,165	(2,576)

Source: MSO 2002 Form 10-K.

Exhibit 4: MSO Financial Statements, 2003–2007 (\$ in thousands, except per share data)

	2007	2006	2005	2004	2003
REVENUES					
Publishing	183,727	156,559	125,765	95,960	135,529
Merchandising	84,711	69,504	58,819	53,386	53,395
Internet	19,189	15,775	11,258	27,512	30,813
Broadcasting	40,263	46,503	16,591	10,580	26,111
Total revenues	327,890	288,341	212,433	187,438	245,848
Operating income (loss)	7,714	(2,833)	(78,311)	(60,004)	(6,405)
Income (loss) from continuing operations	10,289	(16,250)	(75,295)	(59,073)	(1,923)
Loss from discontinued operations		(745)	(494)	(526)	(848)
Net income (loss)	10,289	(16,995)	(75,789)	(59,599)	(2,771)
PER SHARE DATA					
<i>Earnings (loss) per share:</i>					
Basic and diluted—Income (loss) from continuing operations	\$0.20	\$(0.32)	\$(1.48)	\$(1.19)	\$(0.04)
Basic and diluted—Loss from discontinued operations		\$(0.01)	\$(0.01)	\$(0.01)	\$(0.02)
Basic and diluted—Net income (loss)	\$0.20	\$(0.33)	\$(1.49)	\$(1.20)	\$(0.06)
<i>Weighted average common shares outstanding:</i>					
Basic	52,449	51,312	50,991	49,712	49,389
Diluted	52,696	51,312	50,991	49,712	49,389
Dividends per common share		\$0.50			
FINANCIAL POSITION					
Cash and cash equivalents	30,536	28,528	20,249	104,647	165,566
Short-term investments	26,745	35,321	83,788	35,309	3,100
Total assets	255,267	228,047	253,828	264,678	309,102
Shareholders' equity	155,529	130,957	160,631	187,628	236,665
OTHER FINANCIAL DATA					
Cash flow provided by (used in) operating activities	11,735	(5,711)	(30,349)	(22,226)	(9,634)
Cash flow provided by (used in) investing activities	(6,606)	40,125	(58,300)	(39,756)	15,956
Cash flow provided by (used in) financing activities	(3,121)	(26,135)	4,251	1,063	404

Source: MSO 2007 Form 10-K.

Exhibit 5: MSO Financial Statements, 2008–2012 (\$ in thousands, except per share data)

	2012	2011	2010	2009	2008
REVENUES					
Publishing	122,540	140,857	145,573	146,100	179,116
Merchandising	57,574	48,614	42,806	52,566	57,866
Broadcasting	17,513	31,962	42,434	46,111	47,328
Total revenues	197,627	221,433	230,813	244,777	284,310
Operating income (loss)	(56,396)	(18,594)	(8,663)	(11,968)	(10,857)
Net loss	(56,085)	(15,519)	(9,596)	(14,578)	(15,665)
PER SHARE DATA					
<i>Earnings (loss) per share:</i>					
Basic and diluted—Net loss	\$(0.83)	\$(0.28)	\$(0.18)	\$(0.27)	\$(0.29)
<i>Weighted average common shares outstanding:</i>					
Basic and diluted	67,231,463	55,880,896	54,440,490	53,879,785	53,359,538
Dividends per common share		\$0.25			
FINANCIAL POSITION					
Cash and cash equivalents	19,925	38,453	23,204	25,384	50,204
Short-term investments	29,182	11,051	10,091	13,085	9,915
Total assets	154,260	216,120	222,314	229,791	261,285
Long-term obligations		7,500	13,500	19,500	
Shareholders' equity	95,516	147,947	139,033	143,820	150,995
OTHER FINANCIAL DATA					
Cash flow provided by (used in) operating activities	239	(2,220)	1,872	(9,273)	39,699
Cash flow provided by (used in) investing activities	(18,918)	6,886	153	(9,617)	(38,856)
Cash flow provided by (used in) financing activities	151	10,583	(4,205)	(5,930)	18,825

NOTES TO SELECTED FINANCIAL DATA:

Loss from continuing operations:

2012 results include a non-cash goodwill impairment charge related to the Publishing segment of approximately \$44.3 million and restructuring charges of approximately \$4.8 million.

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

2010 results include the recognition of substantially all of the exclusive license fee of approximately \$5 million from Hallmark Channel for a significant portion of MSO's library of programming, as well as licensing revenue for other new programming delivered to Hallmark Channel.

2009 results include a net benefit to operating loss of approximately \$20 million from certain items, including the revenue from Kmart of \$14.5 million, the recognition of previously deferred Kmart royalties of \$10 million as non-cash revenue, and an incremental \$3.9 million from the conclusion of MSO's relationship with TurboChef Technologies, Inc.

Source: MSO 2012 Form 10-K.

MARTHA STEWART LIVING OMNIMEDIA

KEL776

Exhibit 6: Martha Stewart Living Omnimedia Equity Ownership**Voting Control (%)**

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	1999
Martha Stewart	86.6	86.7	90.3	90.8	90.9	91.4	91.7	92.1	90.9	93.8	93.9	96.0
J. C. Penney Co.	3.6	3.7										

Source: MSO 10K Reports.

Ownership of MSO Equity

Market Capitalization	\$188 million
Number of Institutional Owners	101
Number of Fund Owners	132
% Owned by Institutions	17.26
% Owned by Funds	9.9
% Owned by Insiders	0.53

Institutional Ownership (%)

Royce & Associates	2.69
BlackRock Fund Advisors	1.65
Vanguard Group Inc.	1.18
Dimensional Fund Advisors	1.16
Eideiman Virant Capital	0.82
Eagle Asset Management	0.77
State Street Corp.	0.70
Northern Trust Investments	0.59
Renaissance Technologies	0.51
Bryn Mawr Capital Mgmt.	0.35
Top 10 Institutions	10.42

Source: Investors.Morningstar.com (accessed November 16, 2013).

Fund Ownership (%)

Royce Opportunity Investment	2.23
Fidelity Select Multimedia	0.77
Vanguard Total Stock Market Index	0.58
iShares Russell 2000 Value	0.53
Vanguard Extended Market Index	0.43
Gabelli Small Cap Growth AAA	0.28
DFA US Micro Cap I	0.26
DFA US Small Cap I	0.21
iShares Micro-Cap	0.19
CREF Stock	0.15
Top 10 Funds	5.63