Insider trading allows privileged stakeholders within an organization to profit from privy information. This situation creates an advantage for insider individuals while leaving general stakeholders caught with rapidly deteriorating stock prices. Economists such as Milton Friedman advocate for the validity of insider trading as a benefit to investors who then remain positioned to more quickly perceive the presence of significant information in the marketplace (Schiller, 2010, p. 17). According to Friedman, "you want to give the people most likely to have knowledge about deficiencies of the company an incentive to make the public aware of that" (Schiller, 2010, p. 17). Insider trading in the United States is defined by the Securities and Exchange Commission (SEC) in section 10b5-1 and 10b5-2 where factors describe the legality upon which individuals may buy or sell stocks; the application of a pre-existing plan or action based on disclosed nonpublic information could make the difference between innocence and indictment (SEC, 2014). As such, insider trading where employees purchase or sell their own company's stock does not necessarily represent an illegal maneuver (SEC, 2014). In spite of Friedman's marketplace assertions, insider trading garners the most attention when it occurs within an illegal framework. It is to this instance of action based on covert tips and nonpublic information that I will devote attention in this essay.

In 2003, Martha Stewart was charged for committing illegal acts of insider trading. Indicted by the SEC, Stewart faced obstruction of justice charges where she actively worked to cover up her illegal sale of ImClone stock, of which she owned 3,928 shares up to 27 December 2001 (Carlin, 2003). As a client of Merrill Lynch, Stewart received counsel from the assistant of her former stockbroker, Peter Bacanovic, that the Waksal family currently in a leadership position with ImClone recently elected to sell all stock in their company (Carline, 2003). At the time, the stakeholders within the market were waiting for a Food and Drug Administration (FDA) ruling on a cancer treatment product called Erbitux and manufactured by ImClone (Carline, 2003). By the Waksal's actions to sell the stock within the Merrill Lynch trading network, Bacanovic was made aware of certain pending action on behalf of the FDA (Carline, 2003). He then violated company policy by "disclosing client transactions or effecting client trades on the basis of other client transactions" (Carline, 2003). After Stewart sold her ImClone stock, the announcement was made public and the stock value dropped 16% thereby saving Stewart losses of $45,763 (Carline, 2003). This decision was covered with a false alibi where Stewart and Bacanovic told the SEC that they agreed to sell ImClone stock if it fell below $60 per share (Carline, 2003). By acting on nonpublic information, Bacanovic took advantage of his position within Merrill Lynch to privilege his client, Martha Stewart. Together, they acted to cover up the divulgence of this information.

The actions of Stewart carry broad implications for how public companies should legally operate. As CEO of Martha Stewart Living Omnimedia, Inc., Stewart's decision to act in a self-benefitting manner to the detriment of public stakeholders cast her credibility as leader of her own public company into serious doubt. SEC Director of Enforcement Stephen M. Cutler curtly summarized the matter, stating "it is fundamentally unfair for someone to have an edge on the market just because she has a stockbroker who is willing to break the rules and give her an illegal tip. It's worse still when the individual engaging in the insider trading is the Chairman and CEO of a public company" (Carline, 2003). Stewart was ultimately found guilty on four counts of obstruction of justice and making falsified statements to investigators (Ferrell, 2011, p. 1). She was sentenced to five months of jail time, a $30,000 fine, and two years of probationary supervision (Ferrell, 2011, p. 4). As leader of a public company, Stewart set a questionable standard.

In spite of proclaiming her innocence throughout the entire ordeal, Stewart ultimately elected to serve the jail time and put the matter behind her. She made documented efforts to avoid the public controversy by deferring to her lawyers when summoned to Capitol Hill by the US House of Representatives' Energy and Commerce Committee and threatened to invoke the Fifth Amendment right to remain silent (Ferrell, 2011, p. 4). When Jane Clayson questioned her on the matter during CBS's "The Early Show," in the midst of a cooking segment, Stewart quipped "I want to focus on my salad . . ." (Ferrell, 2011, p. 5). Stewart, in spite of publicly declaring her innocence on the basis of a previously agreed upon stop-option between herself and Bacanovic, cast public doubt upon herself by refusing to directly answer questions concerning the matter. When she finally went to jail, she went as far as to compare herself with Nelson Mandela as another instance of "many good people who have gone to prison" (Ferrell, 2011, p. 5). In doing so, market analysts assessed a strategic move on the part of Stewart to position herself as victim of a misguided and unfortunate situation rather than a cheat who took advantage of her position (Ferrell, 2011, p. 5). This decision significantly impacted her global brand.

In this case, the described activity adversely impacted the the ImClone company in the short term. Stewart's 27 December 2001 decision may have stemmed from a friendship with ImClone CEO Waksal, especially if Bacanovic had been aware of it. Stewart used her association with Waksal as part of the attempted cover up, describing a phone call placed to his office to get more information about company proceedings (Ferrell, 2011, p. 3). Waksal was ultimately convicted on multiple accounts of insider trading, bank fraud, securities fraud, perjury charges, and obstruction of justice; this conviction emerged from further revelations that company counsel John Landes sold $2.5 million of ImClone stock on 6 December 2001, marketing VP Ronald Martell sold $2.1 million of ImClone stock on 11 December 2001, and four other executives sold shares between 12-21 December 2001 (Ferrell, 2011, p. 2-3). Although Stewart's association with ImClone focused negative public attention on the company, the stakeholding public ultimately forgot the covert actions on, especially as founder Waksal received a seven-year prison sentence. ImClone continued forward. Ironically, the FDA approved the use of Erbitux among those with colorectal cancer in February 2004. In 2008, ImClone was acquired by Eli Lilly and Company at $70 per share for a value of $6.5 billion.

Implications for Martha Stewart Living Omnimedia, Inc., posed substantial repercussions in the immediate aftermath of the conviction. The scandal devalued Stewart's company stock price by more than 70% and eliminated 25% of her previous net worth of $650 million (Ferrell, 2011, p. 2-3). At the time of the conviction, the brand equity for Martha Stewart ranked below that of Enron; the founder's credibility remained almost inextricably tied to that of her company (Ferrell, 2011, p. 5). The scandal itself came at a time when the publishing mechanism of Martha Stewart Living Omnimedia had reached a mature point with strong product differentiation and rapidly growing popularity (Ferrell, 2011, p. 5). After news of insider trading broke, the company took on substantial losses in its Internet operation ensued by poor television ratings (Ferrell, 2011, p. 5). Many marketing experts conclude that Stewart's founding personality of credibility and honesty was irrevocably tarnished in the aftermath of the scandal as her namesake graces the title of her company (Ferrell, 2011, p. 6). Stewart may have paid a minimal jail sentence for her infractions, but the damage to her brand name continued.

Employees of Stewart's company were indirectly affected by the scandal. Although infractions of insider trading have been well-publicized with relatively frequency in the cases of Mark Swartz of Tyco ($600 million), Raj Rajaratnam of Galleon Group ($21 million) Worldcom, and Enron, Martha Stewart's pre-established position as a home cultural figure and business leader positioned her and by extension her own company as a target for public disapproval. In the past year, revenue growth has declined 18.7% to rest at $160.7 million while employee growth has followed suit to lay off 18.7% of their workforce, currently resting at 405 people (Yahoo Finance, 2014). However, this may have more to do with declining advertising sales for her print magazine than irrevocable damage to her brand name (Carr, 2013). Stewart acknowledges the greater difficulty of rebuilding something that once was as compared to constructing something altogether new, but nevertheless remains firmly in the driver's seat in affairs of the American home aesthetic (Carr, 2013). Stewart embodies tenacity, most palpably demonstrated in the 2013 court date featuring her testimony in a contractual dispute between Macy's and J.C. Penney for the right to represent her brand name; certainly, Stewart remains positioned to transfer from advertising revenue to product revenues as she takes advantage of a brand name that embodies quality home care (Carr, 2013). With determined vision, Stewart aims to move beyond the scandal to benefit her company and employees.

The overall stock market was not substantially affected by this action; other third parties in the long run were not substantially affected by this insider trading scandal based on the scale. Stewart saved $51,000 by selling her ImClone shares and was fined $30,000 for a net savings of

$21,000 (Ferrell, 2011, p. 4, 6). Her company's stock value dropped immediately from $20 to $8 upon her 2003 conviction but exceeded its losses by 2005 until the 2008 crisis, where it dropped to about $2 (Yahoo Finance, 2014. If Stewart's stock price is any indication, the ramifications of this decade-old scandal are secondary to the market forces defining her company's revenue growth.

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