

CHAPTER

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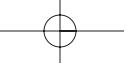
THAT'S VERY MARTHA

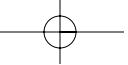
Martha Stewart became the most famous businesswoman in America, a cultural icon whose very name evoked a style and elegance that pervaded all walks of life. She had far greater influence on the way Americans cooked and entertained, and decorated their homes and gardens, than any individual in the nation's history.

She had a knack for knowing how to brighten American households with her food, her flowers, and her gardening; and while many had difficulty articulating precisely what her profession was, millions knew instinctively that her perfectionist emphasis on elegance and simplicity was her unique signature. "Here's how Martha would do it," her loyal fans declared lovingly, as if there were only one way of baking a cake or planting a garden.

She was so good at what she did, she was watched and admired by so many people, that she eventually established standards in a wide variety of homemaking and entertaining spheres affecting the lives of millions of people. By choosing to establish those standards in the most important institution in our lives—our homes—and by helping a newly emerging class of wives and mothers, breadwinners with little time or energy for the home, she came along at just the right time and with just the right message.

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And could she deliver the message! Indeed, she was unique in designing all of her products and then serving as chief spokesperson for them. Ordinarily, designers remain in the background and beautiful models show off the products. But in Martha Stewart's case, she was front and center, a television fixture explaining clearly and simply how to become an ideal homemaker and home entertainer.

ONE OF A KIND

She seemed to have it all, a successful eponymous company, an incredible ability to establish her own personal brand through her products, and a personal authority that gained her wider and wider acceptance with each television appearance and with each book published.

Certainly she was one of a kind.

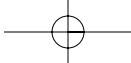
Who else could say that she began her career in catering and wound up a billionaire? Who else could lay claim to so much celebrity for tossing

a salad or arranging a floral display? Who else had so much visibility and so much familiarity that the mere mention of her first name was enough to identify her? Who else had fans that knew her style well enough to say, when someone set a table just right, or nurtured a garden with flair, "That's very Martha."

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Nothing was harder in business than to create a personal brand. Only a handful of people had done it: Ralph Lauren, Calvin Klein, Coco Chanel, and Donald Trump come to mind. Martha Stewart did it too, and the more products that bore her name, the smarter she seemed. She fused her name and her personality into the company that she founded and eventually took public—Martha Stewart Living Omnimedia.

Few other business enterprises were as dependent on a single person. The company embodied Stewart's tastes and Stewart's business strategies; she was its major shareholder, its founder, and its chief executive officer. As the company grew and it became an indelible fixture on the business scene, MSLO seemed indestructible and Martha Stewart appeared invulnerable. Sure, a bus might hit her, company executives joked darkly, but the company's future seemed secure: Even if Stewart one day passed from the scene, her iconic stature would serve as the company's anchor forever.



She was a perfectionist. As she went, in her early years, from modeling to trading stocks on Wall Street to a career in catering, she had to be the best. Her fans responded favorably to her setting such high standards for herself. She began to believe that she really did know what was best for everyone. That became her version of reality.

Clinging to that reality, she called herself an educator and took on a didactic demeanor toward everyone. In her version of reality, she was in command of all that she purveyed: her taste, her preferences, her rules prevailed. As the teacher, she was always right, never wrong.

Millions of people sanctioned her view of reality by establishing her as the “domestic diva” and the “queen of homemaking.” With so many people fawning all over her, yes-men and yes-women one and all, she had no time for anyone who thought she was less than perfect; she had no time for anyone who did not conform to her view of reality.

She assumed that just being Martha Stewart was enough to ward off any assault on her world. Should anyone dissent from her version of reality, she was armed with a whole set of defense mechanisms: She knew how to marginalize people, to trivialize them, to make them feel inferior to her.

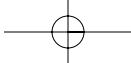
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To her great shock, some did not share her view of reality. They saw no reason to idealize her or to pay her obeisance. Theirs was a different view of reality, and in their world, there were no queens or princesses who made their own rules. They made the rules.

NO NEED TO FALL

By disconnecting herself from their reality, Martha Stewart fell from power. She had no need to fall. All that she needed to do was to understand their reality and embrace it. But for a long time she could not. When she finally did become sensitive to their reality, when she was no longer disconnected from their reality, she was ready to rise again. *Martha: On Trial, in Jail, and on a Comeback* looks at her fall and her mission to rise again in the first book-length, in-depth examination of the greatest crisis in Martha Stewart’s life and career.

It all came to a head for her in the early afternoon of December 27, 2001, when she committed a minor offense, and her world fell apart.



She committed the offense in the spur of the moment on a remote, noisy, busy airport tarmac while on a cell phone, not even certain to whom she was speaking. She did not initiate the alleged crime; the person on the other end of the phone and that person's boss did that. She did not stand to gain a huge amount of money; all she did was avoid losing what amounted to pocket change for her. At first glance, she seemed to be committing the crime of insider trading, but when she was probed the evidence just was not there for an insider trading charge.

And yet this one minor transgression threatened to put an end to all that she had built.

Her critical misstep came about after she learned that a close friend, the co-founder of a major biotech company called ImClone, had been trying to unload his company shares; she then sold all of her stock in that company.

Others had sold stock in that company at the same time as Martha Stewart, but she became the focus of a major investigation undertaken by the Federal Bureau of Investigation, the Securities and Exchange Commission, and the United States Attorney's Office. A Congressional probe went on in parallel with the federal investigation.

Why, if what Martha Stewart had done was indeed minor, had she come under such official scrutiny?

After all, she had not killed anyone. She had not stolen money from a pension fund. She had not put personal items on the company's expense account. Indeed, by acting on a hot stock tip from a stockbroker with connections to the company of the stock, she had done nothing different from what many on Wall Street were doing hour after hour.

Why had the feds singled her out?

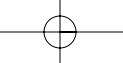
True, she had sold her ImClone stock on the eve of an unfavorable FDA decision on the company's highly touted cancer drug called Erbitux; but she was not a senior executive at ImClone, nor did she know that an unfavorable FDA decision was in the offing.

But she was no serial murderer, no child abuser. What had she done to agitate the feds to such a degree?

It was, as it turned out, not what she had done—but what she was.

Martha Stewart was an icon.

She was someone the feds could collar and hold up to public ridicule and put away in jail—and be assured that the entire nation would know of their noble deeds. By taking that stock tip when she did, Martha Stewart provided the feds with a villain at a time when real, honest-to-God corporate villains were roaming the streets free. Ken Lay of Enron



and Dennis Koslovsky of Tyco had practically dropped a nuclear weapon on their companies, but their encounter with the criminal justice system was a long way off.

Not only was Martha Stewart iconic, she was available. She was a tantalizing example who could be put under the public spotlight immediately. Unlike the complicated, arcane corporate shenanigans of others, Stewart's tiny little indiscretion could be served up to the media and the public with the kind of immediacy and a panache that could only thrill the feds.

Does the phrase "Kafkaesque" come to mind? You bet it does.

Though far more victim than villain, Stewart fit neatly into the surrealistic world of the feds who cared little about how much actual harm she had done. What they cared about was their resumes.

NEVER LET HER GO

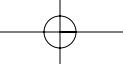
And the feds would never let her go.

Accused of insider trading at the start of the federal probe against her, she was eventually charged with a completely different crime and no insider trading charges were filed. For months the federal authorities looked into Stewart's stock sale, interviewing her twice, talking with her stockbroker and the stockbroker's assistant, hoping to build an insider trading case against her.

But, after 18 months, the authorities were unable to prove that what she did constituted insider trading; but they did catch Stewart committing other alleged crimes: lying to authorities, obstruction of justice, conspiracy, and securities fraud. And so they indicted her on these charges, less venal than insider trading, but still criminal.

Even after she was indicted, no one seriously believed that Martha Stewart would wind up in a courtroom. It all seemed so preposterous, her getting into legal trouble over a stock tip, and over avoiding the loss of such a small (\$45,000) amount of money.

But she wound up in a courtroom—and then prison—because she refused to take the feds seriously. In pressing their case against her, they were clearly dissenting from her version of reality—the one in which Martha Stewart could do no wrong.



But she refused to brook any dissenters, and so she came armed for battle against the feds.

Rather than take the feds seriously, she trivialized their efforts. She sought to marginalize what they were doing. She felt that she had done nothing wrong and, at least with respect to her taking that controversial stock tip, she was right about that.

Having done nothing wrong from her perspective, she saw no reason to bend her version of reality.

The problem for her was that she had done something wrong; at least she certainly gave the impression that she had. She had lied to the feds and that was a federal crime.

Thinking that she had done nothing wrong, she fell back on her defense mechanisms; trivialize, marginalize, proclaim your innocence; make it clear that you have better things to do with your time. By taking that tack, she had seriously disconnected herself from reality. She could never defeat the feds with such strategies. But she tried.

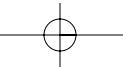
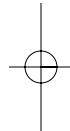
The more she became disconnected from reality, the more stiff-necked and nasty she came off. She relied on such traits to overwhelm her rivals. But the feds would not budge. They gave her opportunities to pull the plug on her legal battle. She could have settled her case. She could have avoided a trial and a guilty conviction and jail.

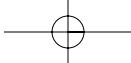
But she insisted on believing that her version of reality would ultimately triumph—and she was wrong. She won no credit for carrying on with her legal struggle. To most people, including the feds, she simply seemed stubborn. And indeed she was.

She became a victim of her stubbornness and made one bad legal decision after another—and all the while the world was watching.

Because she chose to fight rather than to resolve her predicament right away, and because she was the most famous woman in America, she gave the media a dramatic story that at times seemed more important than cataclysmic political events or natural catastrophes.

Though the Martha Stewart legal case came at a time of seemingly constant corporate scandal, she received more media coverage during her courtroom drama than any other celebrity since the 1995 O.J. Simpson trial. Some called Martha Stewart's the first big corporate scandal case of that era, and they drew comparisons between her case and those of Enron, Tyco, Adelphia, and WorldCom. But it was ludicrous to mention





her legal case in the same breath with Ken Lay, Bernie Ebbers, and Dennis Koslovsky, corporate leaders who had done far more mischief, and caused far more harm to shareholders and employees.

The feds benefited from the massive media coverage; Martha Stewart did not. She had to preserve her reputation and putting a cloak of secrecy over her case seemed the best way to do that; so she hardly spoke about her case in public; she was thrilled that for the first six months of the probe, the public was kept in the dark.

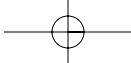
But the feds wanted to look like white knights in shining armor, dealing a blow to corporate mischief, protecting the little guy against the big, bad scoundrels. For that they needed all the publicity they could muster. And so they sought to surround the Stewart case with compelling drama: They called press conferences for routine announcements; they turned the trial into a morality play, the good guys (the Government) vs. the bad guys (Martha Stewart and her stockbroker, Peter Bacanovic); and they linked Stewart's alleged crimes with the corporate scandals of the day (Enron, Tyco, and the like).

THE CRUSHED-VELVET CURTAIN

Finally, the feds encouraged the media to believe that the probe into Martha Stewart offered a rare opportunity to give the public a glimpse into the secretive, mysterious world of the upper crust of New York society and to demonstrate that the wealthy played by a different set of financial rules from all others. As *Newsweek* put it in its July 1, 2002 story on the Stewart case: "...l'affaire Martha isn't just about ImClone. It has also pulled back the crushed-velvet curtain on the clubby world of New York's social elite, a place where the rich and powerful pass around insider business gossip as readily as the help passes out smoked-salmon canapés. With post-Enron investors already questioning the fairness of the marketplace, Stewart's case is the most visible reminder yet that folks on the inside get richer while the rest of us watch our 401(k)s shrivel."

But the feds did not have to work too hard to convince the media and the public that the Martha Stewart legal case was one of the most gripping of the era.

It was compelling because the full weight of the Federal Government was taking on one of the nation's most celebrated icons—and all over a minor offense.



It was dramatic because here was someone who had it all yet let it slip away—again over a minor indiscretion.

Finally, it was attention-getting because the main actor in the drama had the ability to put an end to her struggle but chose instead to fight on against heavy odds.

How could such a thing happen?

What was it that impelled Martha Stewart to an indictment and trial, both of which were avoidable?

Once it happened, was her downfall inevitable?

What motivated the federal authorities to pursue her so relentlessly?

How did she stage the most remarkable comeback in modern history?

These are the questions that we take up in this book.

Our story begins in the winter of 2001 when all seemed tranquil and idyllic for Martha Stewart—and her life was about to unravel.

