Barbara T. Alexander

For her tenacity in ferreting out fraud at Homestore.com

BARBARA ALEXANDER DIDN'T KNOW what she was getting into when she joined the **Homestore** board in April of 2001. She wasn't alone. No one knew what was brewing beneath the surface at the nation's largest online real estate company. No one, that is, except a handful of executives who were systematically defrauding the company.

Within two years, four senior executives had pleaded guilty to inflating the company's revenue by \$46.4 million. **U.S. Attorney General John Ashcroft** had publicly commended Homestore for fully cooperating with government investigators and deemed this cooperation reason not to prosecute the company. And Homestore's stock had rebounded from a low of \$0.50 a share to \$3 a share.

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The outcome is due in large part to Alexander. She raised red flags to the audit committee, helped start an internal investigation and took part in more than 50 audit committee meetings during the crisis. "Barbara was the catalyst," says **Bart Friedman**, a senior partner at **Cahill Gordon & Reindel**, who served as special counsel to the audit committee. "She realized something did not sound right, got independent counsel and an independent forensic investigation and convinced the board to get to the SEC."

While all three independent members of the Homestore audit committee—**Ken Klein**, **William Kelvie** and Alexander—worked as a team in managing the internal inquiry, Klein and Kelvie credit Alexander with going beyond the call of duty. Ditto for **Walter Lowry**, Homestore's general counsel at the time. "I've worked with quite a few boards, and with many directors who were really outstanding, but Barbara is in a class of her own," says Lowry.

When Alexander joined the Homestore board, she knew she was taking on a challenging job. Homestore, a family of websites originally conceived in 1996 by two venture capital firms and the **National Association of Realtors**, was suffering from the recent dot-com bust. But other than the rigors of working with a company at a crossroads, she anticipated a relatively smooth tenure as the director of a company in which she believed.

It did not take long for Alexander's expectations to take a sudden turn and for Homestore to become the first in a flood of high-profile corporate scandals. "We were at the cutting edge of corporate fraud," Alexander remarks wryly.

In the fall of 2001, the audit committee learned of a worrisome incident. An outside service provider had called a Homestore employee demanding "hush money." Wanting to verify a transaction in the Homestore books, a Homestore auditor had called the service provider and asked for a signed, written confirmation. The service provider, in turn, had called the Homestore employee and demanded money for signing the document. The Homestore employee, who was innocent of any wrongdoing, reported the incident.

The audit committee began to ask questions. It uncovered evidence that one senior executive, then two, then three, were involved in questionable deals. It would not have been unusual for a newly appointed director to take a backseat in such a situation. Not Alexander. "When it got to three, I raised my hand and said, 'We really have to get good outside counsel to understand what's going on,'" Alexander recalls. The board retained Cahill Gordon & Reindel, which in turn brought in **FTI/Simpson**, a team of forensic accountants. The committee gave them carte blanche to follow the paper trail wherever it led.

CFO **Joseph Shew** resigned toward the end of 2001 and the company announced it would restate some earnings. Internet chat rooms started to burble with speculation about misconduct. The committee had to work fast in order to resolve the issue, lift the cloud from employees' heads, satisfy the SEC and move forward.

The board decided to have the finance department report directly to Alexander. She also was broadly responsible for finding a new CFO. For about six months, the audit committee held meeting after meeting, many of them six or seven hours long. "Over the Christmas holidays, we had meetings or conference calls almost every day, including Christmas Eve, Christmas Day and New Year's Day," Lowry says with a shudder.

"One of the things Barbara really brought to bear on this," adds audit committee chairman Klein, "was her experience as an analyst. She gave crucial assistance in scrubbing some of the numbers." She personally read the financial statements, such as 10K and 10Q reports.

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Senior Partner, Cahill Gordon & Reindel,

The fruit of this effort was boxes of documents delivered to the SEC pertaining to the questionable transactions. In September 2002, based primarily on those documents, the SEC filed a complaint against three former executives, including the former CFO. The commission charged that they had arranged a complex series of transactions to inflate Homestore's ad revenues. The scheme entailed passing money through other companies to get it back as new revenue.

While conducting the fraud, the commission said, the executives exercised stock options to reap profits ranging from around $169,000 to $3.2 million. The executives settled the complaints, agreeing to repay the fraudulent gains. They also pleaded guilty to related criminal charges.

When Ashcroft made his announcement commending the company, SEC officials went even further in praising it.

DIRECTOR'S SNAPSHOT

BORN:
December 18, 1948, in Little Rock, Arkansas

EDUCATION:
B.S. and M.S., University of Arkansas at Fayetteville

▸ Barbara Alexander at the Dayan Pagoda in Xian, China

CAREER HISTORY:
Senior advisor and former managing director, UBS Warburg; Managing director, Salomon Brothers; Securities Analyst, Smith Barney, Investors Diversified Services and Wachovia Bank & Trust.

FAMILY:
Married to Thomas B. Stiles II for 22 years; two stepsons.

HOMETOWN:
Monarch Beach, California

MOST MEMORABLE BOOK READ:
The Three Junes, by Julia Glass

MOST ADMIRED PERSON:
Great-aunt Irene Snyder. Forced by poverty to quit school in second grade, Snyder rose to have the most senior job of any woman in Arkansas, supervisor of all the state's telephone operators. And "in her sixties, she still was climbing trees and playing catch."

BEST VACATION PAST FIVE YEARS:
Visited Russia and saw the 300th-anniversary celebrations for the city of St. Petersburg.

WHEN I WANT TO RELAX, I:
Walk, look at the ocean, travel to unusual places.

CURRENT CORPORATE BOARDS:
Centex, Harrah's Entertainment

The commission, in its own announcement, said it "would not bring any enforcement action against Homestore because of its swift, extensive and extraordinary cooperation in the commission's investigation."

Homestore was a test case for the SEC. Only weeks before the audit committee discovered irregularities, the commission had promulgated a set of guidelines, the 21(a) Report, for cooperating in investigations of corporate fraud. "We followed those guidelines to the letter. They had never had anyone go through this process," Lowry says.

The fact that the forensic accounting team included former SEC officials added credibility to the process in the commission's eyes, Alexander adds.

The audit committee also promulgated a new code of conduct at Homestore to prevent recurrences. The code requires employees to confidentially report any fraud to the board's audit committee.

AFTER THE JOLTING HOMESTORE EXPERIENCE, Alexander took the lessons she learned to another of her corporate boards, building-services company **Centex**. There she spearheaded the introduction of an enhanced code of conduct similar to the one just established at Homestore. The new guidelines, built on an existing code, add specifics about how employees should deal with customers, business partners and government officials and include a whistle-blower mechanism. "She was reading what was going on, reading what the lawyers were saying, challenging us with all sorts of ideas," says Centex chairman and CEO **Larry Hirsch**.

These days, Alexander takes it easier. She stepped down from Homestore and has moved to California, where her home office overlooks the ocean. She has also scaled back her commitments at UBS Warburg, where she was managing director, in order to make way for some up-and-comers. She has served UBS as an advisor since 1999, reclaiming her old office one day every two weeks.

"I let the other people use this room while I'm out," she says, explaining to a visitor the clutter around the edges of her UBS office. Sitting there, she tells her story in a folksy way that may have sprung from her southern upbringing. But beneath is a hard-nosed worldliness: Her background includes a stint as the first woman managing director of **Salomon Brothers**.

"You very much get the flavor from her that she's a sophisticated investment banker from New York," Lowry says. ■