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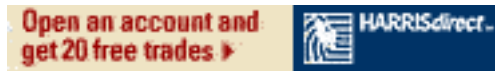
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A Mini-Enron on Every Corner?

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By [KURT EICHENWALD](#)

Published: May 29, 2005

ON that Christmas day in 1998, life could hardly have seemed better for the Gordon brothers, David and Greg. They brought their wives to celebrate the holiday amid the festive décor of their parents' home in Conroe, Tex., a onetime oil boom town north of Houston. As family members relaxed, the brothers eagerly compared notes about their triumphs of the last year.

The stock market bubble was still expanding. For David Gordon, a corporate lawyer from Tulsa, that translated

into a flourishing business helping companies go public or make acquisitions. For Greg Gordon, who ran a successful wholesale jewelry business with his wife, Lisa, the flood of market wealth had created a heated demand for the luxury items he sold.

Then, as they sat near the Christmas tree, David broached a thought. Why not combine their talents, linking some of the highflying businessmen he knew with Greg's thriving company, Con-Tex Silver Imports? It seemed the perfect path to even greater wealth and achievement for all the Gordons.

Instead, it ripped the family apart. Within years, Con-Tex was destroyed - the victim, according to a court-appointed examiner, of mismanagement and potential criminality. David and Greg, once so close, stopped speaking to each other as they battled in court. Their parents, too, were dragged into the dust-up, testifying on behalf of one son's interests - and against the other's.

How could it happen? How could a small company be wrecked so quickly amid myriad accusations of financial wrongdoing that went undetected until the whole place came tumbling down?

The answer is, it happens every day. The Con-Tex story is not just the tale of the downfall of one company or one family. It is a microcosm, a look at an underbelly of the investing and corporate worlds where hokey deals and mysterious webs of linked investors are part of the workaday business.

In the last few years, in the wake of the high-profile collapses of [Enron](#), [WorldCom](#) and other onetime giants, steady attention has been focused on cleaning up the practices of companies at the top of the corporate pyramid. But the companies at the bottom - which make up the vast majority of corporate entities - still exist under the radar of public scrutiny, despite too often playing fast and loose with the rules.

"These companies have all kinds of vulnerabilities, from incompetence to fraud," Linda C. Thomsen, head of enforcement for the Securities and Exchange Commission, said of thinly traded companies that go public without directly selling new shares, as Con-Tex did. "People who invest in these tend to have less disposable cash, so their losses are probably more dramatic for them. They can afford to lose less and they probably invested more."

The Con-Tex story involves a range of potential securities violations, according to lawyers and court records. But primarily, legal experts say, it is an example of the abuses that are possible in the sale of unregistered securities under what is known as Rule 504 of federal securities laws.

"This is the shadowy world of 504 offerings - which are, as often as not, associated with a certain amount of fraud or incompetence," John C. Coffee Jr., a law professor at Columbia University, said about the Con-Tex case after reviewing a bankruptcy examiner's report. "In this case, it doesn't look like the 504 offerings done here were done in compliance with the rules."

The potential violations at Con-Tex went beyond that, according to court records. The company issued misleading press releases, mistakenly took over the wrong company and allowed audits to be signed by an accountant who was unlicensed in Texas - and who may have never visited the company.

"As a corporate lawyer, it goes against the grain to see professional work done this badly," said Robert E. Crawford Jr., a Dallas lawyer who was the bankruptcy examiner. "At one level, it is horrifying, and at the other end, it is just an example of the Wild West frontier that can exist in this world, despite the regulatory effort. There are just too many companies out there."

For Greg Gordon, what happened is obvious: the brother he once trusted, he has argued in court filings, transformed Con-Tex into a public company solely to profit by manipulating the share price - and ultimately tried to take away more than 60 million shares he owned. "I had a real belief in my brother, but I was stupid," Greg said in an interview. "He's a crook."

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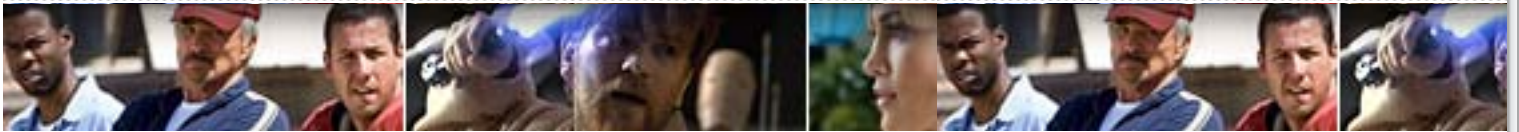
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