

The word "Chicago" is written in a stylized, serif font with a white outline, set against a dark background. The letter 'C' is particularly large and features a white outline.

Chicago

A horizontal strip of a US Federal Reserve Note, showing the words "UNITED STATES FEDERAL RESERVE NOTE" in a bold, serif font. The strip is set against a background of flames.

UNITED STATES FEDERAL RESERVE NOTE

A horizontal strip of a US Federal Reserve Note, showing the words "IN GOD WE TRUST" in a bold, serif font. The strip is set against a background of flames.

IN GOD WE TRUST



TO

▲ "Don't worry," Clyde Hood told his followers in a hot line message. "We will be there very soon. It is real."

To the multitudes of investors who sent him money, Clyde Hood's promises must have sounded like the answer to their prayers. Through Omega Trust & Trading, his offshore investment program to help the faithful "keep the Lord's warehouse full," Hood said he would deliver returns of at least 50 to 1. Over more than six years, thousands of people sent Hood millions of dollars, setting off a small financial boom in hardscrabble Mattoon, Illinois. Now Hood is headed for prison, and the money is mostly gone—though some investors still somehow believe their windfall is going to come

False Profit

by Shane Tritsch

illustration by Timothy Okamura

((•)) The moment he tore open the letter from Omega Trust & Trading Ltd., the man called Freedom breathed a sigh of relief. "Hallelujah!!" the letter proclaimed in big, underlined boldface type, the extra exclamation point a fitting flourish, given the stupendous news. "We are finished with the 'Transaction phase.' This letter is your official notification that the Debit Cards or Cashier's Checks are being prepared now and will be sent to you as quickly as the bank can process them." **((•))** Like thousands of other people across the United States and around the world, Freedom—his alias on the Internet—had

invested money in Omega Trust & Trading in hopes of making a killing of at least 50 to 1 in overseas financial markets. But the big payday had been promised and delayed so many times over the previous few years that he, like many other "Omegans," had begun to suspect the program was a scam. As he bluntly put it on Internet message boards devoted to Omega, "I want the money or the truth!" (Freedom declined to give his real name because he had received death threats from Omega investors upset by his Internet posts.)

Christmas 1999, Freedom's faith in Omega was born again. "I thought, It's really going to happen. We're finally going to receive the funding that was promised for so long," he says. "Otherwise, why go to all this trouble [of sending the letter]? What's the point?"

On the Internet, spawning bed for countless rumors about Omega, reports circulated that the payout could be much higher than 50 to 1. One of the more conservative estimates pegged it at 7,500 to 1—which would give Freedom a profit of more than \$5 million on his \$700 investment. Other Internet posters claimed that a bank on Guernsey, in the British Channel Islands, was almost finished processing the accounts and that Federal Express trucks would commence delivering the "funding packages" to investors in time for Christmas—or if not by then, well, certainly within the first week or two of the year 2000.

But as investors fantasized about the fortunes they were about to receive, Christmas came and went, with no money from Omega Trust & Trading. Soon all of January had passed without any deliveries, and no official word from Omega—only the wild speculation spinning incessantly on the Internet. "Then," Freedom says, "the message came out that there was a satellite glitch." Funding was delayed once again.



▲ Clyde Hood in a 1994 video recorded at a Holiday Inn in Portland, Oregon



As it turns out, there was no satellite glitch.

There was no windfall of at least 50 to 1. And there was no bank in the Channel Islands feverishly processing funding packages for express delivery to the homes of newly minted millionaires and billionaires. There could never be, because the financial instruments that were supposed to generate the huge profits—so-called prime bank notes—did not exist.

The man behind this sham is real enough, though. His name is Clyde Duane Hood, from the south-central Illinois town of Mattoon. But the 67-year-old Hood is not, as investors were led to believe, one of seven people in the world blessed with the know-how to trade prime bank notes for huge profits in secret overseas markets. He is a retired electrician and maintenance worker with a record of petty crime in Mattoon and a previous indictment in Indiana in connection with another investment scam. Like the pyramid schemer Charles Ponzi and legions of other con artists over the years, Hood played what started as a small-time hustle into the swindle of a lifetime. "He thought this would be an itty-bitty deal," says Carl Walworth, city editor of the *Mattoon Journal Gazette*. "But it got out of hand, and all this money started rolling in."

Eventually Omega Trust & Trading extended its reach into

every state in the country and at least a dozen other countries around the world, defrauding more than 10,000 people out of at least \$20 million, prosecutors say—and probably much more than that. Many victims were among society's most vulnerable, people living on welfare or social security. A large number held strong religious beliefs and were won over by Hood's earnest pronouncements of Christian piety. By the end, however, Omega had spread across all demographic lines, snaring young and old, high school dropout and Ph.D., reverent and reprobate.

Meanwhile, Mattoon, a hardscrabble farming and industrial town of 18,400, enjoyed a boomlet of business expansion and real estate investment triggered by Hood's millions. Even today, with the scam unraveled and Hood facing prison, the \$600,000 stainless steel Bluebird Diner (now shuttered) sparkles on the drab west side of Mattoon—a gaudy monument to the false dream Hood peddled.

That so many people were taken in is hardly surprising—Omega was merely one outbreak in a recent epidemic of frauds involving nonexistent financial products from "prime banks," a term that sounds official but means nothing. Despite efforts by federal and state agencies to warn consumers of the dangers of prime bank fraud and to step up enforcement, scam artists con-

((•••)) In the early days, Omega was pitched primarily to church groups as a "Christian program," with Hood claiming that God had directed him to share the world's wealth with "the little people."

tinue to bilk the gullible and the naïve. This year alone through the month of July, the U.S. Securities and Exchange Commission had brought actions against people accused in 21 different prime bank scams that allegedly took in a total of \$283 million. (For information on how to recognize and avoid prime bank fraud and other financial scams, see page 139.)

In the crowded field of investment fraud, though, Omega Trust & Trading stands out, not only for the audacity of Hood and his gang of conspirators, but also for the utter credulity of their victims. For six and a half years, even as investigators tightened the noose, Hood and the gang continued to fleece a steady influx of new investors while spinning a web of preposterous lies about an imminent payout. That so many people fell prey should sound a cautionary note to anyone lured by the tease of easy money.

But the real lesson of Omega may be that there will always be a ready supply of people who want—perhaps need—to believe there is an easy path to surefire riches. Indeed, even

though Hood has admitted in court that Omega was a scam, a cultlike remnant of Omega faithful still cling to the belief that soon—very soon now—those Federal Express trucks will rumble to a stop in front of their houses and deliver the magical packages that will change their lives forever.

Perhaps these diehards would find it harder to keep the faith had they watched Hood plead guilty on April 10th at the federal courthouse in Urbana. Clad in an orange prison jump suit, he seemed relaxed, even relieved, as he told U.S. district court judge Michael McCuskey that no investor who put money into Omega ever could have received the promised return. That is because Hood used the money himself and lavished it on his cronies, pals, and relatives. When the judge asked him to tell the court, in his own words, what he had done wrong, Hood chuckled ruefully and said, “Your Honor, I don’t think I’ve got the time.”

Although he conned thousands into believing he was an elite international financier, Clyde Hood could hardly be more ordinary; at least half a dozen Mattoon residents interviewed for this story described him as “just an average Joe.” Bull-necked and crewcut, he carries an ample paunch on his nearly six-foot frame—the result, he has said, of his poor diet—and he takes 18 pills a day for his surgically repaired heart. He no longer hears well, and his memory isn’t what it used to be. Now and then his lungs erupt in a phlegmy smoker’s hack. He speaks with a country twang, saying “set” instead of “sit,” and “come” when he means “came,” and he’s given to the occasional down-home turn of phrase—a frugal person is “tighter than the bark on a log,” he says, and someone who’s mentally unsound is “half a bubble off.”

Until his arrest last year, Hood had lived his entire life in Mattoon, a city that sprang up in the 19th century at the junction of two railroad lines about 180 miles south of Chicago. Long past its railroading heyday, Mattoon today is a town of farm workers who till the rich black dirt of the central Illinois prairie, and of factory workers who may run the presses at the R. R. Donnelley printing plant or make bagels for Lenders, sponsor of Mattoon’s annual bagel festival, the highlight of the social calendar.

Hood went to Mattoon High School and then enrolled at Eastern Illinois University, in nearby Charleston, for two years. As a young man he was sweet on a pretty gal named Patty Knowles, whose family ran a cafeteria in Mattoon. Two years Clyde’s junior, she followed his path from Mattoon High to EIU, which she attended for just a year. After they were married, Clyde and Patty settled down in a modest house of white clapboard and red brick, where they raised a son and three daughters.

Although Clyde’s limited education might have augured a career in the local factories, he did not yield to his fate without resistance. In the early 1960s, he took a state licensing exam given by the Securities and Exchange Commission, but failed to pass it. Instead of a career in the financial markets, he would sweat for his wage at companies such as Celotex, where he served as a maintenance man and electrician, installing and repairing electrical and mechanical equipment. Eventually he left Celotex and became a self-employed electrician, taking on odd jobs around town.

People in Mattoon who know Hood unfailingly describe him as likable, a good ol’ boy who enjoys telling a joke and who wouldn’t hesitate to help someone in need. An acquaintance of 40 years tells of the time Hood rewired a friend’s house and did not charge for the labor. “Anytime I needed help, he’s been there,” says Bertha Miller, Hood’s long-time next-door neighbor. “One time I had a leak in my house. Here he came with a bucket of tar up on my roof and fixed it. You couldn’t have a nicer neighbor.”

But some people saw a shady side to Hood. “He tries to be nice to you, friendly and all,” says an acquaintance who hasn’t spoken to Hood in more than 20 years. “But I wouldn’t trust him. He was always conniving, trying to figure something out.”

Now and then Hood did find his way into trouble. In November 1973, he pleaded guilty to a charge of criminal damage to property after setting fire to some camping equipment and other property on an ironworkers’ picket line. Five years later he helped two men steal 18 guns from a construction site by drawing a map for them; Hood pleaded guilty to a charge of conspiracy to commit burglary. (In both cases, Hood was fined \$500 and placed on probation for two years.)

In December 1990, Hood had another brush with the law, this time in connection with a fraudulent scheme in Indiana to encourage investment in overseas oil futures. A Pike County, Indiana, grand jury indicted him for the sale of unregistered securities, but Hood refused to surrender himself to the jurisdiction of the Indiana court. Eventually the charge against him was dismissed after a judge ruled that his right to a speedy trial had been violated.

Ron Higgs, an insurance agent from Mount Vernon, Indiana, lost \$5,000 investing in those phony oil futures. Although Higgs was annoyed that Hood managed to avoid prosecution, he soon lost track of him and had never even heard of Omega when contacted for this story. But after learning some of the details about Omega—its promise of enormous profits “overseas,” its failure to return so much as a penny, and its litany of dubious excuses—he remarked, “It sounds like the same scam. He didn’t change anything, except the stuff he was selling.”

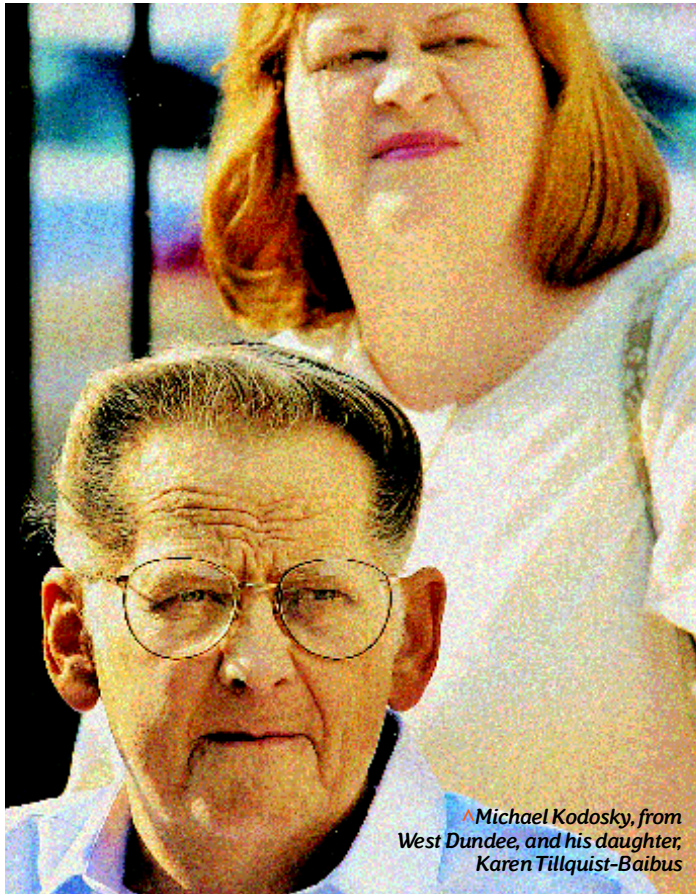
And the scope of the con.

In the early 1990s, the Securities and Exchange Commission became increasingly alarmed at the growing number of scams offering “prime bank notes” and other “prime bank” instruments—“debentures,” “letters of credit,” and “guarantees” were some of the other names borrowed from the real world and given to these fictitious financial products. Claiming special access to secret “offshore” trading programs that were usually reserved for Rockefellers and Vanderbilts and the like, the scam artists promised investors outrageously large returns with no risk to their principal. To give their schemes an air of legitimacy, they would also distribute official-looking documents describing their products’ bafflingly complex funding mechanisms, which might include “rollover” programs that allowed profits to be reinvested for exponential returns.

“It’s almost like somebody gave a seminar on how to commit



▲ Once a sign of boom times, the shuttered Bluebird Diner (left) is now a monument to the scam. Trucks apparently delivering Omega loot stopped frequently at the Hoods’ house (right).



▲ Michael Kodosky, from West Dundee, and his daughter, Karen Tillquist-Baibus

bank debenture scams, because all of a sudden they just appeared out of nowhere,” says Jay Adkisson, an asset protection attorney from Irvine, California, whose investment fraud Web site (www.quatloos.com) offered one of the first warnings that Omega was a scam. “There was no one running them, and then suddenly there were 200 or 300 people running them, and it expanded from there.”

Traveling in the early 1990s with an Oregon man whom he described in court testimony as his “mentor” and “partner” in international business ventures, Hood met some of the con artists—now “hiding in England,” he said—who were running early prime bank scams. By October 1993, when the SEC issued its first official alert warning investors about prime bank fraud, Hood was busy laying the groundwork for Omega Trust & Trading, his own phony offshore program that would borrow heavily from the standard prime bank pitch.

To give his sales effort traction, Hood arranged to hire network marketers, salespeople who earn commissions not only by selling products—herbal shampoos, organic vitamins, no-run pantyhose—but also by recruiting other sellers, who in turn can boost their commissions by recruiting still more people to sell. In the end, these marketing pyramids may reach thousands of potential customers. Although network marketing (also called multilevel marketing) isn’t illegal, the practice “tends to attract sellers who have little interest in whether the product being sold has validity—the sole focus being on whether they can recruit people who will help them sell to others,” Adkisson says. “So these bank debenture programs, because they lack economic substance, are particularly suitable for sale by multilevel marketers.”

In January 1994, when Omega sales started in earnest, a net-

work marketer named Bill Wilson, from Wauconda, Illinois, agreed to act as Hood’s principal assistant, managing the daily affairs of Omega, maintaining its records, and acting as a liaison to investors. Wilson also recruited other experienced network marketers and, according to Hood’s court testimony, helped draw up a phony contract for investors to fill out. Peppered with financial and legal jargon—not to mention grammatical errors—the contract promised a payout of at least 50 to 1 after nine months and described Omega as a “private party loan agreement,” thus giving participants the comfort of thinking they were lenders (who would be repaid) rather than investors (who could lose their money). When a “lender” sent the signed contract and money in, Wilson completed the illusion of Omega’s legitimacy by returning a receipt bearing an account number.

In the early days, Omega was pitched primarily to church groups as a “Christian program,” with Hood claiming that God had directed him to share the world’s wealth with “the little people.” The practice of targeting religious, ethnic, or other tight-knit groups is so widespread among scam artists that there is even a name for it: affinity group fraud. “You get a high level of trust with people who are members of the same church or organization,” says Brian Ochs, an assistant director in the SEC’s division of enforcement and the coordinator of the division’s prime bank fraud program. “So if the fraudster can get his hooks into some member of the group, then the other members become easy prey.” As Hood inelegantly put it in court, “It’s like [with] a Jewish person: If you mention Hanukkah, well, they feel more at ease with you. If you talk to

((•)) Kodosky—who helped collect more than \$18 million, court records show—was known to tell clients that they would soon have more money than they could ever spend

a Catholic and you talk about mass . . . you get more comfort level.” And so Hood struck a devout pose, quoting scripture and invoking the name of God—the effect of which was “to settle everybody down and get more money coming in,” he testified.

To give early investors a sense of urgency, Omega solicitors stressed that there was a limited supply of “units” available, at \$100 apiece, and that once they were gone the program would be closed. “The one thing they did that impressed me was that they didn’t have the thing open for sale forever,” says a man who asks to be identified as “Jlseagull,” his Internet handle. “They shut it off in August 1994 because it was going to fund in September. I said, ‘Hmmm . . . that doesn’t sound like a scam.’ You don’t shut a scam down unless you’re going to run away, and they didn’t run.”

Convinced Omega was legitimate, Jlseagull agreed to assist a network marketer from the Southwest who had been recruited as an Omega “coordinator” by Bill Wilson. In the two years he served as the coordinator’s money collector and database manager, Jlseagull got a close look at the inner workings of Omega. (Jlseagull says he never solicited money for Omega, and cut his ties after he became convinced it was a scam.) To give an idea of the Southwestern coordinator’s selling power, Jlseagull provided *Chicago* with a record of sales generated by the man’s “down-line” network of marketers between late June and early August 1994. In just over a month, five marketers raised more than \$250,000

from hundreds of investors, mostly in increments of \$100 to \$500, but going as high as \$10,000. That figure did not include money raised by the coordinator himself; he sold to "big players" who invested \$25,000 to \$50,000 and a church that invested \$80,000, Jlseagull says. Over the six years the Southwestern coordinator was involved in Omega, Jlseagull estimates, he and his network may have raised \$4 million to \$5 million, passing most of it along to Wilson, who then shipped the bulk of that to Hood.

There were at least half a dozen "coordinators" at or above the level of Jlseagull's colleague (who has not been charged), and this suggests that official estimates of losses incurred by victims are well short of the true total. "We're just scratching the surface of Omega," Jlseagull says. "The \$20 million they're tossing around is just the tip of the iceberg."

The 70 or so Omega lenders who gathered in the meeting room of a Portland, Oregon, Holiday Inn on a September day in 1994 had good reason to feel giddy. With sales of Omega Trust & Trading now closed, they knew that the time for the program to fund was drawing near. What's more, the great Clyde Hood himself had agreed to grace their gathering and answer their questions. Most of the people in the room had come into Omega through a coordinator in Portland (who has not been charged), and from her they understood the program's basics—how for every \$100 unit they owned they could expect a 50-to-1 profit, or \$5,000, plus repayment of their \$100 "loan," upon completion of the "transaction phase." And they knew they could choose to participate in the "roll program," in which their \$5,100 would be reinvested for another fiftyfold gain, rocketing the value of each unit to \$255,000. There would be three "rolls," meaning a lender who left his money in for all three could walk away with \$765,000 for every \$100 unit.

Early in the meeting, a man in the audience asked if he could videotape Hood's remarks. No problem, Hood declared—after all, he had nothing to hide. In the years that followed, the widely circulated tape became a powerful marketing tool that "increased sales tremendously," Hood testified. The video not only reveals how Hood bamboozled his victims—in it he is aw-shucks friendly (*continued on page 180*)



Signs and Warnings

There's still plenty of fraud out there—so, buyers, beware

Although there is no such thing as a "prime bank note," new scams peddling these bogus securities are "continuing unabated," says Brian Ochs, coordinator of the prime bank fraud program in the U.S. Securities and Exchange Commission's enforcement division. This year alone, the SEC has brought more than 20 actions against prime bank schemes, the largest of which allegedly took in more than \$64 million, and the agency has prosecuted well over 100 cases since the early 1990s. But federal regulators and law enforcement agencies have limited resources, and it's safe to say that many other cases of prime bank fraud have gone undetected and unprosecuted. Although there are no official figures for the magnitude of money involved, unofficial estimates put investor losses over the past decade in the billions of dollars.

Prime bank schemes have succeeded so well because they offer two age-old attractions—low risk and high returns—and because, tricked up in fancy pseudo-banking language, they sound legitimate to the unsophisticated. Although the specifics vary from scam to scam, the typical prime bank pitch offers access to ultrasecret offshore trading programs, the kind supposedly reserved only for the world's wealthiest people. According to the pitch, the programs deal in discounted "debentures" (corporate IOUs) or other securities that are guaranteed by either a "prime bank" or, because the phrase "prime bank" is becoming well known, one of the world's "top 100" banks.

The use of the term "prime bank" is one sign that an investment pitch is fraudulent. Here (culled from the Web sites of the SEC and other agencies) are more warning signs of prime bank and similar kinds of investment fraud:

Excessive "guaranteed" returns: Promises of risk-free and unrealistically high returns (10 percent to 100 percent or more a month) are hallmarks of prime bank fraud. The most basic rule of thumb about investing is, the higher the possible profit, the higher the risk.

Exclusivity and secrecy: Promoters may tell investors that the transactions are by invitation only, or for special customers, and are historically reserved for the very wealthy. They may also warn that the exchanges on which the securities are traded are so secret that banks won't even admit they exist—which, of course, they won't—because if they did, everyone would want in, and the extraor-

dinary returns would no longer be possible. Legitimate, regulated securities are subject to disclosure requirements, and so a lack of specific or verifiable information is a sure sign of trouble.

Aura of complexity: Solicitations from scam artists will often characterize prime bank trading as too complex for investors to understand, and may include contracts or other official-looking paperwork bearing complicated-sounding financial terms: "standby letters of credit" and "medium term notes," for example.

Air of credibility: Promoters may claim their securities are backed by such well-known institutions as the Federal Reserve, the World Bank, or the International Monetary Fund. They're not.

What to Do

Perhaps the first defense against fraud is common sense. The adage still holds: If something sounds too good to be true, it probably is. The second line of defense involves due diligence. Ashley Baker, speaking for the North American Securities Administrators Association, an organization devoted to investor protection, estimates that 90 percent of investment fraud could be avoided if investors simply called their state securities regulator and asked two questions:

- 1) Is the investment licensed by the state securities division?
- 2) Is the seller registered with the state securities division?

If either question elicits a "no," investors should steer clear. (In Illinois, contact the Secretary of State Securities Department at 800-628-7937.)

Investors can also go online to educate themselves about prime bank and other types of investment fraud. The SEC offers a site (www.sec.gov/investor/alerts.shtml) loaded with information on how to invest wisely and avoid fraud. Other helpful sites include:

- www.publicdebt.treas.gov/cc/ccphony.htm
- www.quatloos.com
- www.crimes-of-persuasion.com
- www.worldwidescam.com

To report a suspected scam, contact the Secretary of State Securities Department at the number listed above, or the SEC Complaint Center (202-942-8088; www.sec.gov/complaint/shtml).

—S. T.

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and eager to answer all questions (though his answers are evasive and often incoherent). It also shows how his victims—intoxicated by thoughts of the bounty they were about to receive, awed by Hood's impressive (albeit phony) résumé, and simply too financially naïve to attack the gaping holes in his story—eagerly lapped up his lies.

Foremost on everyone's mind that day was the question of when Omega would fund. And Hood had great news: He was leaving the very next day for Switzerland, he said, and expected to complete the big transaction through a Zurich bank by the following Thursday. What was more, he predicted, he would have all three "rolls" completed by the end of the year. As he fielded questions—no such thing as a stupid one, he said—he retailed highlights from his fictitious career: how he was one of "only seven people, maybe possibly eight, in the world" who had the expertise to trade prime bank debentures; how he had been trading for "15 years, going on 16 years, for a Fortune 500 [company] and banks"; and how "the Holy Spirit" had gotten hold of him one day and directed him to "fill the Lord's warehouse" by sharing the world's wealth with "people that's very good Christian people."

To help them understand the complexities of offshore trading, Hood explained that he was able to make "buy-sell agreements" with prime banks—"You must use a prime bank"—for collateral. He could buy and sell \$250 million of collateral in the morning and \$250 million worth again in the afternoon, four days a week, pocketing a 10-percent profit on each transaction. "Ten points, or 10 percent of that, is \$50 million [profit a day]," he said, "less a quarter of 1 percent to the fiduciary bank and a quarter percent to the attorney at the closing bank." The transactions were handled through his own (nonexistent) bank in Guernsey, with Zurich-based Credit Suisse (which in fact was not involved in any way with Omega) serving as the "corresponding" bank. "I'm the only one that has the collateral account," Hood boasted. "I'm the only one that has the fiduciary bank. You don't buy that. You have to earn that. And I've done it so long I've earned it and I've got it."

When a man in the audience still couldn't comprehend how each trade could generate so much profit, Hood cranked up the fog machine some more. "It's generated by buy and sell agreements," he said. "And this agreement on

buy and sell is collateral of some sort. I can buy it at a discount, and a discount is made. So that's what shows a profit."

Finally someone asked the question that cut to the core of Hood's medicine show: What were the banks getting in exchange for the extraordinary premiums they were giving him? "I'm glad you pointed that out," Hood said, and then proceeded to give an impenetrable answer that apparently satisfied everyone.

Soon Hood's interrogators moved on to more interesting topics, like how their riches would be sent to them and how they might shelter their fortunes from taxation. So bewitched and bewildered were they that no one even bothered to catch Hood's blatant factual blunders, such as his claim, in answer to his own question, that it took "four years, nine months, seven days" to double one's money earning 7 percent interest. (In fact it would take about ten years.) But Hood did get at least one thing right that day. Quoting an old professor of his, he said with a wry twinkle, "Figures don't lie, but liars figure." The people in the room laughed hard at that one—unaware that their money was already long gone.

Clyde Hood had put plenty of thought into giving Omega the look and feel of a legitimate enterprise. But he apparently was unprepared for the program's runaway success—and for how difficult it would be, once the thing gathered steam, to stop it. "I think this began as just a small-time scam, something he could do for a little bit and then just forget about it," says Carl Walworth, the Mattoon newspaperman who has covered the Omega saga ever since Hood and his cronies were arrested. There was just one problem—by the autumn of 1994, thousands of investors were on the hook in Omega, and they would never just forget about it.

Evidently Hood's exit strategy, if it could be called that, was simply to shut down sales around August 1994. Although most of the network marketers did briefly stop selling, at least one of them, Michael Kodosky, from the Chicago suburb of West Dundee, "never stopped," according to Ilseagull. One of Omega's top solicitors—he and his daughter, Karen Tillquist-Baibus, collected more than \$18 million, court records show—Kodosky was a career network marketer who was known to tell clients owning even a unit or two that they would soon have more mon-

ey than they could ever spend. "When Mike was selling Omega, he would tell people whatever they wanted to hear," says Ilseagull: "You want 50 to 1? Fine. A hundred to one? It's still the same price! You want a bonus? Fine, if that's what makes you happy!"

Because the original units of Omega were supposedly sold out, Kodosky began peddling a new product—"refund units," which, the story went, were previously owned by lenders who had turned them in for their money back. (In fact, prosecutors say, investors were discouraged from seeking refunds, and only the few who complained loudest ever received any.) Although Hood testified that he was "disappointed" that Kodosky was selling these phony units, he was not so chagrined that he refused the money that began pouring in. Soon the other network marketers were also selling refund units, and Omega Trust & Trading was once again open for business.

To deal with the increasingly persistent questions about when Omega would pay off, Hood set up a telephone hot line that allowed people to call in and listen to "updates" that he recorded. In one of his first messages, on July 20, 1995, Hood said, "Everything is going fine. We are—we are, repeat—a week away where I'll be going to get this thing completed for us. It will be completed as on schedule on the 24th, starting the loan agreement, and will be completed the 25th." When the 25th arrived, however, Hood had disappointing news—funding would be delayed, he said, because of "the greed, the jealousy, and the desire of power" of some Omega lenders.

On at least 72 occasions from mid-1995 to July 2000, according to the indictment, Hood and others concocted similar lies for the update line. Often Hood would claim that everything was progressing according to plan, and that Omegas should begin their financial planning in preparation for the vast fortunes they were about to receive. "Don't worry," his message of October 18, 1995, said. "We will be there very soon. It is real." Invariably, however, some vague problem would crop up. One delay was "due to some unforeseen international financial conflict"; another time Hood said, "We have a little bit of complications with the—our—situation" because "there are people trying to, ah, stop this and what have you." But any setbacks were almost always offset by the hopeful news that everything was "almost

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complete” or that the latest problem would be “resolved in the next three or four days” or that “we will all rejoice together on this.” And the updates frequently ended with Hood’s admonition to “keep the Lord’s warehouse full.”

“Those updates were very convincing,” says a woman named Bonnie, from Muskegon, Michigan, who invested more than \$1,000 in Omega. “He sounded honest, like a regular down-home guy, not like a slick con man. And he said that God was using him to do this for the little people. That made me trust him more. I’ve learned since then that more crooks are doing it in the name of God than anybody.”

Month after month, year after year, the promised Omega payout, so tantalizingly close at hand, attracted investors like bees to nectar, and the always “limited” number of refund units available prodded them to ante up sooner rather than later, lest they miss this opportunity of a lifetime. Meanwhile, Hood was becoming a wealthy man. On their 1996 joint tax return, he and his wife reported income of \$11,222; their actual income, court records show, exceeded \$2 million that year. But each time that he made up a new excuse to keep his scam running, Hood could not have taken much comfort—the lie had merely bought him a few more weeks before Omegans would again expect delivery of their funding packets.

Soon the widening scam began to attract the attention of law enforcement. Around June 1997, the U.S. attorney for the Central District of Illinois convened a grand jury and began grilling witnesses about Omega. In August of that year, Bill Wilson’s apartment was raided by FBI and other federal agents, who confiscated computers, cash, and Omega transaction records. In his phone update of August 11th, Hood mentioned the raid, adding that he had “no malice” in his heart for the misguided agents who had violated Omega. Curiously, though, it seems that neither the raid nor talk of grand jury proceedings did much to cure investors of Omega fever. After the raid, Omegans were warned not to cooperate with investigators, and that doing so would result in forfeiture of their chance at riches. Meanwhile, Hood testified, “more money come in. More people come in.”

It took investigators three more years before they finally arrested Hood. During that time, most of the network marketers

kept right on selling—assuring investors that the government was trying to stop Omega to keep the little people from becoming rich, and using the lack of arrests as proof that the program was legitimate. “When you told people [Omega] was bogus, they would say, ‘Why hasn’t the FBI or the IRS done anything?’” says Ilseagull. “The thing that’s scandalous about [investigators’] not doing something [sooner] is, it added credibility. They made it easy for Wilson and Clyde to say, ‘No one is stopping us.’”

In explaining the pace of the investigation, lead prosecutor Esteban Sánchez says, “To prove a fraud, you have to have victims willing to come forward or you have to show where the money went.” Few victims would admit they had been defrauded, especially early on, so investigators spent several years gathering the bank records and other pieces of the paper trail necessary to build the case for fraud and money laundering charges.

The people of Mattoon may also have wondered what took investigators so long. After all, by the late 1990s, anyone could see something strange was happening in their town.

Odd, incongruous signs of prosperity

were popping up all over unprosperous Mattoon. Phil Haskell, who had never seemed to have much money, suddenly had a \$250,000 farm and a 1998 Lincoln, and he started leaving \$5 tips for \$1 cups of coffee at Common Grounds, a popular coffee shop in town. Franklin Myers, a former used-car salesman turned minister, spruced up his humble Full Gospel Tabernacle and—as at least some folks at Mattoon’s Community First Credit Union must have known—opened a joint account with Clyde Hood into which a total of \$3.8 million was deposited in 1995 and 1996, court papers show. Jim Turner, who eked out a living as a sheriff’s corrections officer, bought a \$155,000 ranch-style house, adding a new four-bay garage, landscaping, and a swimming pool.

Then there was Tommie McKibben, who in 1995 sold the little Italian joint he and his wife had run for 29 years and was happily retired from the restaurant business. In 1998, McKibben acquired a piece of land on the west side of town and developed the Bluebird Diner, a sleek, fifties-style theme restaurant whose construction cost more than \$600,000. With its stainless steel siding glinting in the

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sun, and a newly acquired 1950 Mercury four-door parked out front for effect, the Bluebird seemed to epitomize the mini-renaissance brightening dull Mattoon.

Perhaps the most dramatic example of Mattoon's economic rebirth was the phenomenal growth of Engel Construction Company. For a long time, Chris Engel had been a struggling small-time contractor, putting up porch additions and decks. But within the span of a year or two he seemed to be doing half the new construction in Coles County. He built a new \$100,000 house for Clyde Hood's daughter, and a lot of other houses besides. Behind the Bluebird Diner, with its vast parking lot of fresh white concrete, Engel built Marsha's Bluebird Bakery, which would supply the diner and walkup customers with pies and other fresh baked goodies. Out at Coles Business Park, he was contracted to build a \$400,000 structure to house Advantage Information Technologies, a computer and Internet company run by Richard Jones and his wife, Nancy, a niece of Clyde Hood's. He also started a real estate development company and bought a number of specialty building products companies.

With his empire growing, Engel replaced the shack that had housed Engel Construction with an impressive new brick edifice that was "like a phoenix rising," says Sherri Pforr, communications specialist for the Mattoon Chamber of Commerce—and then Engel added a second building next door. "It was like, *boom!*—he's branching out on his own. *Boom!*—he's got it all," Pforr says. The newspaper in Mattoon took note: Carl Walworth wrote a glowing profile of the young go-getter whose construction business by then employed 73 people, had 18 projects under way, and operated a fleet of dozens of new trucks. "There's tremendous growth going on in Mattoon," Engel explained at the time.

For most people struggling to make ends meet in Mattoon, there was no boom. There was, however, a bull market in suspicion. "There were rumors circulating, about people all of a sudden having all kinds of money, and buildings going up that were really expensive," says the chamber of commerce's Pforr. "And it was like, 'Wow, I wonder what money pit they fell into.'"

Again and again, one name in particular cropped up in connection with the new prosperity: Clyde Hood. The retired electrician seemed to have a mysterious

source of wealth and a willingness to share it with friends and family in the form of cash handouts and interest-free loans. At the office he shared with his old buddy, Phil Haskell, in a Mattoon strip mall, Hood "was like the godfather, dispensing favors and money," says a long-time Mattoon resident who asked to remain anonymous. "When word gets out that there's an old fool in town giving out money interest-free, people show up."

Though Hood's house was modest, neighbors began to notice the new cars that kept appearing in his driveway—the Lincoln Continental that he tooled around town in, the cute red Volkswagen Beetle that Patty Hood drove, a succession of shiny new trucks that came and went with regularity. "Every year they got a new car, and I thought, Boy, it must be nice, seeing as how I don't have a car and can't afford one," recalls Diane Cain, a neighbor. Cain also thought it odd that on most days when she took her dog, Fritz, for his late-morning walk, she would see a Federal Express truck delivering packages to the Hoods' house (apparently shipments of money from Bill Wilson, Mike Kodosky, and the gang). "I thought, Well, they must order a lot of stuff," she says. "Because every day that truck was there."

Some people wondered if Hood was connected to the Mob. Others, seeing how often he received calls on his cell phone or noting that the blinds in his house were always drawn, wondered if he was a drug trafficker. But the most widely circulated story, one that Hood himself apparently spread, was that he had made a fortune in the oil business. "He claimed he bought and sold a refinery and made millions on it," says the long-time Mattoon resident. That story at least explained why the former blue-collar worker would periodically jet off to Dubai, Hong Kong, and Belize to attend to his financial matters, and why he was bankrolling so many businesses, building projects, and people around town.

What was really going on, prosecutors allege, was that Hood, with help from Chris Engel and others, was laundering large sums of Omega money through numerous businesses and bank accounts—\$6.3 million flooded Engel's accounts alone—and through large-scale purchases of real estate, automobiles, and other property. In all, Hood admitted, he and others converted \$12.5 million in Omega funds for the purchase of dozens of build-

ings and real estate properties, including the homes of numerous friends and relatives of Hood's, businesses, and other assets, according to court records and testimony. Omega money paid for the Bluebird Diner and the adjacent Bluebird Bakery, the Advantage Information Technologies building, a sawmill and kiln in Missouri (run by a man married to Franklin Myers's niece), a radio station, dozens of trucks (many used by Engel Construction), 11 antique cars, including a green 1907 Metz with a two-cylinder engine and buggy top, and a large assortment of Beanie Babies (apparently for a planned Internet auction site).

Investigators did their best to follow the paper trail of bank deposits and real estate purchases, and at dawn on August 18, 2000, they finally arrested Hood in his home. He and 18 more defendants, including his wife and ten other Mattoon residents, were indicted in connection with the scam and money laundering scheme. When the arrests came down, says Carl Walworth, "for a lot of people it was no surprise, because of what they'd seen and this being a fairly small town. Most people knew a lot of the people involved. It just wasn't that hard to figure out."

For 25 years Bud and Neva McKibben had run a janitorial service in Mattoon. Cleaning offices and houses was not high-paying work, but by always scrimping, buying their clothing secondhand, the couple had saved more than \$50,000 over the years. While cleaning Clyde Hood's offices, Neva McKibben became friends with an Omega solicitor from Los Angeles named Arlene Diamond, who had taken up temporary residence in Mattoon to learn about international trading from Hood. Diamond—who often instructed clients to send cash wrapped in aluminum foil to avoid detection by postal inspectors—told McKibben she could get a 200-to-1 return in Omega, and that Diamond and Hood would soon head overseas to complete the funding transaction. At first the McKibbens planned to invest only \$25,000, but Neva decided to surprise her husband (the uncle of the Bluebird Diner's Tommie McKibben) by putting the couple's entire life savings of \$57,600 into Omega. As she waited for the jackpot, she began poring through home design magazines and cruising the nicest neighborhoods in Mattoon, looking at dream houses that had always

seemed unattainable. "It was exciting in our life," she testified at the trial of Diamond, who was found guilty for her role in the scam. "I thought we had all this money coming in."

The McKibbens are unusual for being among the few Omega victims from Hood's hometown (as he did with other people in town, Hood refused the couple when they asked to get into Omega, and that prompted them to turn to Diamond). But their story is merely one example in Omega's sad portfolio of ruined lives and shattered dreams. "People not in Omega don't realize how much damage this did to people's lives," says Jlseagull. "It caused divorces, suicides, bankruptcies, loss of houses, and on and on."

One of the most searing accounts is of a family in the Midwest that hoped to save its struggling farm after Omega finally yielded its mighty bounty. But after waiting—and waiting—for Omega to fund, they could no longer keep the creditors at bay and were forced to put the farm, which had been in the family for generations, up for auction. Soon afterward, one family member committed

suicide. (Through an intermediary, the family declined to comment.) There are other stories, too, of people who quit their jobs in anticipation of a big payday, or who invested more than they could afford. A California woman, for example, sold her Baskin-Robbins franchise and poured the proceeds into Omega. Nearing retirement age, she is said to be working now at an amusement park.

But even people who did not lose much financially are bitter today, simply because Omega suckered them into believing their lives were about to be transformed. "I live in a dilapidated trailer that's older than I am," says Cathy Williamson, 44, from Brook, Indiana. "My goal was to buy a house. They said that money was for sure on the way. That's a terrible thing to do to people." Bonnie, the woman from Muskegon, expected to receive several hundred thousand dollars from her own small investment. "I looked at this as my one big chance to have a retirement," she says. "So I could travel, fix up my house, help my children. I didn't dream of a multi-million-dollar home and fancy cars."

For people of faith, Hood's religious profiling seems particularly cynical. "In message after message, Clyde said this was God's program to bring riches to religious organizations," says a pastor from the Midwest. "A majority of the people I know who got into this were not looking to get rich quick. They wanted to use the money for homeless shelters, missionary work, local church organizations, outreach programs. The list is infinite of ideas people had to use this money to help humanity." Worst of all, he says, Christians now "look like buffoons who got easily taken, who were dupes. That's very upsetting."

Whatever the scope of their losses, virtually all Omega investors endured the emotional torment of continually expecting a reward they could never obtain. "Let's say I have a satchel with \$10 million in it, and I say it's yours if you come here and get it," says Freedom. "But when you get here, I take off running. And every time you get to where I am, I've run farther away. But you're not going to give up, because \$10 million is right there within your grasp."

Andre Anikin, a commodities trader

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who invested \$100 in Omega just in case it was real, says, "We all had this dream, to strike this jackpot. It became like a drug you could not live without."

Although Clyde Hood continued to use the telephone hot line as a tool of deception, by the late 1990s another potent medium had emerged for the dissemination of lies about Omega: the Internet. In the wild frontier of cyberspace, where pseudonyms are the norm, it was impossible to know where all the misinformation came from. But many of the confidence-building stories posted on the Web no doubt originated with the scam's promoters. Whatever their source, the cyber-rumors fed an insatiable craving for information about Omega.

"At first the excuses [online] were conservative—a glitch with banks," says Jay Adkisson. "Or they were having trouble finding a courier to move such a large amount of money overseas." Then the theories became more elaborate: Omega's payout would be so huge that the banks had to cause a run-up in the stock market so they could sell trillions of dollars' worth of shares. "Any time the market took a dip, the Omegas would wait eagerly by their doors, believing that the banks were selling stocks to raise this money," Adkisson says.

Eventually the rumors became even more outlandish—and conspiratorial. One theory held that the Federal Reserve—controlled by a tiny all-powerful cadre of elites called the Illuminati—was holding up funding in order to prevent the little people from attaining wealth and power. The wackiest theories, based on the writings of conspiracy theorist David Icke, held that government leaders were actually shape-shifting lizards who had assumed human form and taken control of the world. "As far as I know, that was the high-water mark for Omega paranoia," says Adkisson. "After you have that theory, where do you go from there?"

Another genre of rumor hinged on the notion that the long-awaited funding packets were finally on their way. On one occasion, Navy Seals were said to be bringing the packets from "hubs" to investors' houses on a certain day, prompting at least some Omegas to take time off from work to await their arrival. Other rumors involving the method of delivery—by Sherman tank, by helicopters ferrying Green Berets, by Pizza Hut delivery

trucks at 3 a.m.—were equally ludicrous.

Eventually the sheer accumulation of broken promises and the profusion of mutating and multiplying rumors caused a backlash. Freedom, for one, "soon realized there wasn't enough money in the world," as he puts it, to match the size of the ever expanding Omega payout. "I decided to stop believing in a fairy tale," he says. In the online forums, he joined other "O-negatives" such as Jlseagull and began to raise a stink, asking tough questions of the "O-positives" and threatening to sue Omega. Then one day, shortly before Christmas 1999, Freedom received a call from Clyde Hood himself, assuring him that Omega was funding for sure. That coincided with a crescendo of reports on the Internet that the payout was coming right around the new year. Finally, around Christmas Eve, came what Omegas now call the hallelujah letter.

A number of people who have tried to sort out the Omega saga believe the build-up of rumors about a payout just before 2000 was part of a desperate strategy by Hood and his cronies to find a way out of the corner in which their promises had trapped them. "I think [Hood] truly believed that Y2K would be a disaster," says Dave Mateer, an engineering director from Ninot, Colorado, whose brother lost \$1,400 in Omega. "If the overseas banking community had a glitch, that would have been the excuse to walk out: 'The disaster wiped out the loans.'" Adds Jlseagull, "They told people they would have their money no later than the first week or two of the new year. And Clyde's thinking in the back of his head, 'Y2K is going to take care of me.' There's no other reason to send that letter out."

In the end, of course, Hood did not find a way out of Omega. In April of this year, he pleaded guilty to charges of mail and wire fraud, money laundering, and filing a false tax return. Sixteen of the 18 other defendants also pleaded guilty to various roles in the scam; among them were the major solicitors Bill Wilson and Michael Kodosky, and Chris Engel, who admitted his role in the money laundering. Several other Mattoon residents—including Patricia Hood, Phil Haskell, Tommie McKibben, and the minister Franklin Myers—also pleaded guilty to minor roles in the scam, mostly having to do with conducting transactions with funds from illegal activity.

Hoping for a reduction on a maximum

possible sentence of 28 years, Hood agreed to cooperate fully with investigators in tracking down all the Omega loot and assets and to testify for the prosecution at the trials of Arlene Diamond and Jim Turner. (Diamond was found guilty of mail and wire fraud and money laundering, among other charges. Turner's trial, on charges of money-laundering conspiracy and conducting a transaction with illegally obtained funds, ended with a hung jury; his second trial was scheduled to start August 6th.) Sentencing for Clyde Hood was to take place on August 24th.

As for the victims, they may be able to recoup some of their losses, but prosecutors say the total restitution won't come close to the more than \$20 million Omega took in. Esteban Sánchez estimates that the feds may be able to return only \$3 million or \$4 million to victims after all Omega assets are liquidated.

With judicial proceedings drawing to a close and the primary culprits headed for prison, it would seem that one of the more bizarre cases of prime bank fraud had finally run its course. Except that it hasn't—at least for some people who continue to listen to tales of government conspiracies and to surf the 'Net for fantasy parading as fact. "Today I'd say there are still 25 percent of Omegas who really believe the Federal Express truck is going to pull up any day now with their millions of dollars," says Adkisson. "Toward the end, this scam took on the air of a cult."

One of the surviving true believers is Joel Warren, a 37-year-old Hollywood set designer who still expects Omega to turn him into a billionaire someday. I don't doubt that Warren believes this because, in half a dozen lengthy phone conversations with me—the last more than two months after Hood pleaded guilty—Warren patiently, earnestly, emphatically tried to help me understand that the world is not as it appears to me, and that mysterious forces are shaping a grand drama that even he can barely comprehend.

Warren got into Omega in 1997 when he bought refund units—he now owns 40—from Michael Kodosky. Until Hood came along, Warren insists, high-yield investment programs like Omega had always been "a big boy game." But Hood upset the apple cart, opening offshore trading to "the little guy." Warren believes there are 57 other programs similar to Omega that are set to fund as soon as

Omega does—which is why the U.S. government was forced to move on Hood. The government simply cannot allow these programs to make the little people wealthy and powerful, because then leaders “wouldn’t have a handle on the people anymore,” Warren says.

All the false rumors on the Internet in recent years, Warren believes, have been part of the government’s strategy to demoralize the Omega faithful. A few years ago, he decided he could combat the evil rumormongers by giving people the truth about Omega, direct from his top sources in the program. So he started cowriting an online newsletter, called *Friends of Omega* that now goes out to 10,000 e-mail addresses.

He uses the newsletter not only to shoot down the latest false rumors about the delivery of funding packets but also to nurture hope about Omega. Warren believes the world is fast approaching “end times, when the meek shall inherit the world. . . . How do you take the riches of the world from the wealthy and give it to the meek? You need something like this to make it happen.”

As Warren shares his vision, I at times find it hard to keep a straight face. But then I catch myself. In my smugness I am suddenly startled that in some ways I am not so different from him—or anyone else who has ever nourished the hope that someday things will be better than they are today.

When Omega and the 57 other programs do finally fund, Warren says, “it’s going to change society. There aren’t going to be poor people. Everyone will have money and won’t have to work.” That’s because the profit from Omega will be much greater than \$5,000 a unit. “We’ve heard anywhere from \$30 million to \$300 million a unit,” Warren confides—which would make his 40 units worth between \$1.2 billion and \$12 billion.

As he describes his big plans—how he wants to start a string of boot camps for troubled youths and how he worries that some of his friends may not be emotionally prepared to handle the wealth he’ll share with them—I feel another urge: to throttle whoever it is who has pumped him so full of nonsense.

Briefly I consider what it would take to deprogram him—but I realize I could sooner unscramble an egg. And so I leave him to dream of his phantom pot of gold, and all the pretty things it will buy. ■