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**STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION**

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IN THE MATTER OF DETERMINING  
Whether there has been a violation  
of the Securities Act of the State  
of Washington by:

Mike Watson Investments, LLC; Mike Watson  
Capital, LLC; Michael Watson; Joshua Escobedo,  
  
Respondents

Order Number S-09-426-10-FO01

ENTRY OF FINDINGS OF FACT AND  
CONCLUSIONS OF LAW AND FINAL ORDER  
TO CEASE AND DESIST AND IMPOSE FINES  
AND COSTS

THE STATE OF WASHINGTON TO: Mike Watson Investments, LLC  
Mike Watson Capital, LLC  
Michael Watson  
  
Joshua Escobedo

On May 10, 2010, the Securities Administrator of the State of Washington issued Statement of Charges and Notice of Intent to Enter Order to Cease and Desist, Impose Fines, and Charge Costs, S-09-426-10-SC01, hereinafter referred to as "Statement of Charges," against Respondents Mike Watson Investments, LLC; Mike Watson Capital, LLC; Michael Watson; and Joshua Escobedo.

The Statement of Charges, together with a Notice of Opportunity to Defend and Opportunity for Hearing, hereinafter referred to as "Notice of Opportunity for Hearing" and an Application for Adjudicative Hearing, hereinafter referred to as "Application for Hearing", were served on Mike Watson Investments, LLC; Mike Watson Capital, LLC; and Michael Watson on May 18, 2010, and on Joshua Escobedo on May 28, 2010. The Notice of Opportunity for Hearing advised Mike Watson Investments, LLC; Mike Watson Capital, LLC;

ENTRY OF FINDINGS OF FACT AND  
CONCLUSIONS OF LAW AND FINAL  
ORDER TO CEASE AND DESIST AND  
IMPOSE FINES AND COSTS

1 Michael Watson; and Joshua Escobedo that a written application for an administrative hearing on the Statement  
2 of Charges must be received within twenty days from the date of receipt of the notice.

3 Respondent Joshua Escobedo failed to request an administrative hearing within twenty days of receipt  
4 of the Statement of Charges and Notice of Opportunity for Hearing, either on the Application for Hearing  
5 provided or otherwise. Respondents Mike Watson Investments, LLC; Mike Watson Capital, LLC; and Michael  
6 Watson waived the right to a hearing in this matter, and in lieu thereof, submitted a written statement for  
7 consideration by the Securities Administrator.

8 After considering the written statement, the Securities Administrator makes the following findings of  
9 fact and conclusions of law:

## 10 FINDINGS OF FACT

### 11 Respondents

12 1. Mike Watson Investments, LLC (“Mike Watson Investments”) is a Utah limited liability company  
13 that was formed on December 6, 2004. Mike Watson Investments is also known as Mike Watson Investing  
14 and may have previously conducted business as Mike Watson Institute. Mike Watson Investments was  
15 purportedly formed to conduct real estate seminars. Its principal place of business is 1366 East 1120 South,  
16 Provo, Utah 84606.

17  
18 2. Mike Watson Capital, LLC (“Mike Watson Capital”) is a Utah limited liability company that was  
19 formed on October 25, 2004. Mike Watson Capital’s principal place of business is 1366 East 1120 South,  
20 Provo, Utah 84606.

21 3. Michael Watson (“Watson”), also known as Mike Watson, is a Utah resident. Watson is the sole  
22 member of both Mike Watson Investments and Mike Watson Capital.

1 4. Joshua Escobedo (“Escobedo”), also known as Josh Escobedo, is a Utah resident. Escobedo was the  
2 Chief Capital Officer and Team Manager of the Deal Maker Division of Mike Watson Investments.

3 Nature of the Conduct

4 5. Watson began conducting real estate seminars around 2004. His basic premise was that he invested  
5 in and developed real estate properties, and he would teach his seminar attendees to do the same. He  
6 conducted seminars in various cities, including Tacoma, Washington. Some seminars were attended by up  
7 to 800 people. Watson conducted his seminar business through Mike Watson Investments.

8 6. Watson and Escobedo solicited investors during these seminars. Seminar attendees were offered the  
9 opportunity to either partner with Watson on a real estate project or purchase a promissory note. During at  
10 least one seminar, Watson orally represented that he was worth millions of dollars, and had a positive cash  
11 flow of approximately \$100,000 per month and 50% equity in all his properties. He further represented  
12 during at least one seminar that he never defaulted on anything. He stated during at least one seminar that he  
13 made over \$10,000 per day.

14 7. From approximately 2005 through early 2009, Respondents raised approximately \$25,000,000 from  
15 investors nationwide. From at least February 2007 through approximately October 2008, Respondents  
16 offered and sold investments in the form of promissory notes to at least eight Washington residents, totaling  
17 at least \$1,000,000. Amounts invested by Washington investors ranged from approximately \$20,000 to  
18 approximately \$300,000.

19 8. Mike Watson Capital, LLC was the borrower on the promissory notes. The notes were signed by  
20 Michael P. Watson, manager. The notes generally had a term of 360 days. The annual return rate generally  
21 varied from 8% to 16%, depending on how much money was invested. Investors who invested at least  
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1 \$100,000 had the option of receiving a deed of trust along with their promissory note. At least one  
2 Washington investor invested \$100,000 and received, along with his promissory note, a deed of trust  
3 secured by property in California. There are two lenders listed on this deed of trust: the Washington investor  
4 and Watson's parents. Two different legal descriptions of properties, both labeled "Exhibit A," are attached  
5 to this deed of trust. Michael P. Watson is listed as the grantor on this deed of trust.

6 9. According to Watson, Mike Watson Capital was formed to act as a holding company for the investor  
7 funds Respondents raised. Mike Watson Capital did not own any property. Assets were owned in Michael  
8 Watson's name or in the names of other entities he formed, controlled or was affiliated with.

9 10. Some Washington investors provided their investment funds via wire transfer, and others set up self-  
10 directed IRAs. Escobedo provided prospective investors with wire transfer information and instructions on  
11 how to set up a self-directed IRA.

12 11. Respondents asked some investors to complete investor questionnaires prior to investing. However,  
13 not all Washington investors were asked to complete such questionnaires prior to investing. When one  
14 Washington resident, who received the questionnaire after he invested, contacted Mike Watson Capital and  
15 said he did not qualify as either an accredited or sophisticated investor, he was told that it would be  
16 problematic for him to get his investment back unless he signed the paperwork.

17 12. Around approximately May 2008, Escobedo informed a Washington investor whose promissory note  
18 came due that Mike Watson Capital would not be able to return his principal because the real estate industry  
19 was down. The Washington investor agreed to extend his promissory note. Despite this, Respondents  
20 continued to solicit investments and accepted funds from at least five Washington residents after this date.  
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1 13. According to Escobedo, Mike Watson Capital was never able to generate sufficient cash flow on a  
2 monthly basis from its real estate activities to pay investors the interest on their promissory notes. In order  
3 to cover cash shortfalls, which included making interest payments to the promissory note investors,  
4 Respondents would either raise more investor funds, or Watson would bring in funds from Mike Watson  
5 Investments or another entity he controlled. According to Watson, this may have happened approximately  
6 five to seven times annually. As of October 2009, Mike Watson Capital owed approximately \$1.2 million to  
7 Mike Watson Investments.

8 14. Not all Washington investors received a prospectus prior to investing. One Washington investor,  
9 who invested around July 2008, received a prospectus dated September 2006, which included a financial  
10 statement showing the real estate properties that Mike Watson Capital had an indirect interest in as of  
11 September 30, 2006. According to the prospectus, as of September 2006, Mike Watson Capital had  
12 \$14,314,000 in assets and interests in real estate. Respondents did not provide updated financial information  
13 to this investor.

14 15. Respondents orally represented to at least two Washington investors that they would be able to  
15 receive their investment back with sixty days written notice. At least one Washington investor has requested  
16 that his funds be returned. More than sixty days have passed since that investor has requested the return of  
17 his funds; however, those funds have not yet been fully returned.

18 16. Around February 2009, Watson informed investors via a webinar that he was having financial  
19 difficulty. According to a Washington investor who listened to the webinar, Watson blamed the economy  
20 for his financial troubles and stated that his assets were used up, and he had been covering shortfalls  
21

1 personally for a couple years. According to another Washington investor, Watson stated in a webinar  
2 conducted around April 2009 that he would not be able to make monthly interest payments.

3 17. As of October 2009, several of the properties that had been purchased with the proceeds from the  
4 sale of promissory notes were in foreclosure status.

5 18. As of November 2009, at least one Washington investor had received no payment on her promissory  
6 note. Most notes are currently in default, and most Washington investors have received no payments since  
7 about February 2009.

8 Misrepresentations and Omissions

9  
10 19. Respondents failed to provide material information regarding investing in Mike Watson Capital,  
11 including but not limited to: current financial statements, other information about the financial condition of  
12 Mike Watson Capital and its ability to make payments to investors, information about the financial  
13 condition of Mike Watson Investments, and the general risks of investing and the specific risks of investing  
14 in real estate.

15 20. In a document entitled “Advantages to Investing with Mike Watson Capital, LLC,” which was  
16 provided to a Washington investor who invested around July 2008, Watson represents that he “has never  
17 lost an investment dollar.” This is misleading because around October 2007, a real estate project Watson  
18 was involved with did not sell for the amount he expected, and he brought in funds from Mike Watson  
19 Investments to fund the shortfall and pay investors.

20 21. According to the prospectus, “[a]s of September 30<sup>th</sup>, 2006, Mike Watson Capital, LLC did not  
21 directly own any real property.” The prospectus further states that Mike Watson Capital “had an indirect  
22 interest in 36 real estate properties, representing 93% of the Company’s total investment portfolio.” Mike

1 Watson Capital did not have an indirect interest in those properties. Respondents failed to disclose the  
2 ownership of these properties or how Mike Watson Capital was affiliated with the properties.

3 22. According to the prospectus, Mike Watson Capital's "principal strategy is to lend money to or  
4 otherwise obtain an interest in companies which purchase real property. These other companies purchase  
5 direct ownership interests in undervalued real estate, usually multi- or single-family housing, but also  
6 including commercial properties and building lots." Respondents failed to disclose the identities of these  
7 other companies or fully explain how Mike Watson Capital would obtain an interest in these companies.

8 23. Respondents misrepresented how Mike Watson Capital would value its real estate investments.  
9 According to the prospectus, individual real properties were to be "valued initially at their purchase price."  
10 An internal review of each of Mike Watson Capital's properties was to be conducted quarterly; however,  
11 such quarterly reviews did not always occur.

12 24. Respondents failed to disclose the number and dollar amount of outstanding promissory notes issued  
13 by Mike Watson Capital.

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15 Registration Status

16 25. Respondent Mike Watson Capital, LLC is not currently registered to sell its securities in the State of  
17 Washington and has not previously been so registered.

18 26. Respondent Mike Watson Investments, LLC is not currently registered as a securities broker-dealer  
19 in the State of Washington and has not previously been so registered.

20 27. Respondent Michael Watson is not currently registered as a securities salesperson or broker-dealer in  
21 the State of Washington and has not previously been so registered.

1 28. Respondent Joshua Escobedo is not currently registered as a securities salesperson or broker-dealer  
2 in the State of Washington and has not previously been so registered.

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4 Based upon the above Findings of Fact, the following Conclusions of Law are made:

5 **CONCLUSIONS OF LAW**

6 1. The offer and/or sale of the promissory notes described above constitute the offer or sale of a  
7 security as defined in RCW 21.20.005(10) and (12).

8 2. The offer and/or sale of said securities were in violation of RCW 21.20.140 because no registration  
9 for such offer or sale was on file with the Securities Administrator.

10 3. Respondent Mike Watson Investments, LLC violated RCW 21.20.040 because it offered and/or sold  
11 securities while not registered as a broker-dealer in the State of Washington.

12 4. Respondents, Michael Watson and Joshua Escobedo, violated RCW 21.20.040 because they offered  
13 and/or sold securities while not registered as a securities salesperson or broker-dealer in the State of  
14 Washington.

15 5. The offer or sale of said securities violated RCW 21.20.010 because Respondents, Mike Watson  
16 Investments, LLC; Mike Watson Capital, LLC; Michael Watson; and Joshua Escobedo, in connection with  
17 the offer or sale of said securities directly or indirectly made untrue statements of material fact or omitted to  
18 state material facts necessary to make the statements made, in light of the circumstances under which they  
19 were made, not misleading.  
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**FINAL ORDER**

Based upon the foregoing and finding it in the public interest:

It is hereby ORDERED that the Respondents Mike Watson Investments, LLC; Mike Watson Capital, LLC; Michael Watson; and Joshua Escobedo, their agents, and employees each cease and desist from offering and/or selling securities in any manner in violation of RCW 21.20.140, the section of the Securities Act of Washington requiring registration.

It is further ORDERED that Respondents Mike Watson Investments, LLC; Mike Watson Capital, LLC; Michael Watson; and Joshua Escobedo, their agents, and employees each cease and desist from violation of RCW 21.20.010, the anti-fraud section of the Securities Act.

It is further ORDERED that Respondents Mike Watson Investments, LLC; Michael Watson; and Joshua Escobedo, their agents, and employees each cease and desist from violation of RCW 21.20.040, the broker-dealer and securities salesperson registration section of the Securities Act.

It is further ORDERED that Respondents Mike Watson Investments, LLC; Mike Watson Capital, LLC; and Michael Watson shall be liable for and pay a fine in the amount of \$30,000.

It is further ORDERED that Respondent Joshua Escobedo shall be liable for and pay a fine in the amount of \$10,000.

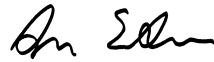
It is further ORDERED that Respondents Mike Watson Investments, LLC; Mike Watson Capital, LLC; Michael Watson; and Joshua Escobedo shall be liable for and pay investigative costs in the amount of \$2,000.

**AUTHORITY AND PROCEDURE**

1 This Final Order is entered pursuant to the provisions of RCW 21.20.390 and 21.20.395, and is  
2 subject to the provisions of RCW 21.20.440 and Chapter 34.05 RCW. Respondents have the right to  
3 petition the superior court for judicial review of this agency action under the provisions of chapter 34.05  
4 RCW. For the requirements for filing a Petition for Judicial Review, see RCW 34.050.510 and sections  
5 following. Pursuant to 21.20.395, a certified copy of this order may be filed in Superior Court. If so  
6 filed, the clerk shall treat the order in the same manner as a Superior Court judgment as to the fine, and  
7 the fine may be recorded, enforced, or satisfied in like manner.

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9 **WILLFUL VIOLATION OF THIS ORDER IS A CRIMINAL OFFENSE.**

10  
11 DATED this 7<sup>th</sup> day of July, 2010.

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SUZANNE SARASON  
Chief of Enforcement

17 Presented by:

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Jiyoun C. Kwon  
Financial Legal Examiner