

STATE OF WASHINGTON  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
SECURITIES DIVISION

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

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

Respondents

Order Number S-09-426-10-SC01

STATEMENT OF CHARGES AND NOTICE  
OF INTENT TO ENTER ORDER TO CEASE  
AND DESIST, IMPOSE FINES, AND  
CHARGE COSTS

THE STATE OF WASHINGTON TO:

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

**STATEMENT OF CHARGES**

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, Mike Watson Investments, LLC; Mike Watson Capital, LLC; Michael Watson; and Joshua Escobedo, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations. The Securities Administrator finds as follows:

**TENTATIVE FINDINGS OF FACT**

Respondents

1. Mike Watson Investments, LLC (“Mike Watson Investments”) is a Utah limited liability company that was formed on December 6, 2004. Mike Watson Investments is also known as Mike Watson Investing and may have previously conducted business as Mike Watson Institute.

STATEMENT OF CHARGES AND NOTICE OF  
INTENT TO ENTER ORDER TO CEASE AND DESIST,  
IMPOSE FINES, AND CHARGE COSTS

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DEPARTMENT OF FINANCIAL INSTITUTIONS  
Securities Division  
PO Box 9033  
Olympia, WA 98507-9033  
360-902-8760

1 Mike Watson Investments was purportedly formed to conduct real estate seminars. Its principal  
2 place of business is 1366 East 1120 South, Provo, Utah 84606.

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

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

8 4. Joshua Escobedo (“Escobedo”), also known as Josh Escobedo, is a Utah resident.  
9 Escobedo was the Chief Capital Officer and Team Manager of the Deal Maker Division of Mike  
10 Watson Investments.  
11

#### 12 Nature of the Conduct

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

18 6. Watson and Escobedo solicited investors during these seminars. Seminar attendees were  
19 offered the opportunity to either partner with Watson on a real estate project or purchase a  
20 promissory note. During at least one seminar, Watson orally represented that he was worth  
21 millions of dollars, and had a positive cash flow of approximately \$100,000 per month and 50%  
22 equity in all his properties. He further represented during at least one seminar that he never  
23 defaulted on anything. He stated during at least one seminar that he made over \$10,000 per day.  
24  
25

1 7. From approximately 2005 through early 2009, Respondents raised approximately  
2 \$25,000,000 from investors nationwide. From at least February 2007 through approximately  
3 October 2008, Respondents offered and sold investments in the form of promissory notes to at  
4 least eight Washington residents, totaling at least \$1,000,000. Amounts invested by Washington  
5 investors ranged from approximately \$20,000 to approximately \$300,000.

6  
7 8. Mike Watson Capital, LLC was the borrower on the promissory notes. The notes were  
8 signed by Michael P. Watson, manager. The notes generally had a term of 360 days. The annual  
9 return rate generally varied from 8% to 16%, depending on how much money was invested.  
10 Investors who invested at least \$100,000 had the option of receiving a deed of trust along with  
11 their promissory note. At least one Washington investor invested \$100,000 and received, along  
12 with his promissory note, a deed of trust secured by property in California. There are two lenders  
13 listed on this deed of trust: the Washington investor and Watson's parents. Two different legal  
14 descriptions of properties, both labeled "Exhibit A," are attached to this deed of trust. Michael P.  
15 Watson is listed as the grantor on this deed of trust.

16  
17 9. According to Watson, Mike Watson Capital was formed to act as a holding company for  
18 the investor funds Respondents raised. Mike Watson Capital did not own any property. Assets  
19 were owned in Michael Watson's name or in the names of other entities he formed, controlled or  
20 was affiliated with.

21  
22 10. Some Washington investors provided their investment funds via wire transfer, and others  
23 set up self-directed IRAs. Escobedo provided prospective investors with wire transfer  
24 information and instructions on how to set up a self-directed IRA.

25  
26 11. Respondents asked some investors to complete investor questionnaires prior to investing.  
27 However, not all Washington investors were asked to complete such questionnaires prior to

1 investing. When one Washington resident, who received the questionnaire after he invested,  
2 contacted Mike Watson Capital and said he did not qualify as either an accredited or  
3 sophisticated investor, he was told that it would be problematic for him to get his investment  
4 back unless he signed the paperwork.

5 12. Around approximately May 2008, Escobedo informed a Washington investor whose  
6 promissory note came due that Mike Watson Capital would not be able to return his principal  
7 because the real estate industry was down. The Washington investor agreed to extend his  
8 promissory note. Despite this, Respondents continued to solicit investments and accepted funds  
9 from at least five Washington residents after this date.  
10

11 13. According to Escobedo, Mike Watson Capital was never able to generate sufficient cash  
12 flow on a monthly basis from its real estate activities to pay investors the interest on their  
13 promissory notes. In order to cover cash shortfalls, which included making interest payments to  
14 the promissory note investors, Respondents would either raise more investor funds, or Watson  
15 would bring in funds from Mike Watson Investments or another entity he controlled. According  
16 to Watson, this may have happened approximately five to seven times annually. As of October  
17 2009, Mike Watson Capital owed approximately \$1.2 million to Mike Watson Investments.  
18

19 14. Not all Washington investors received a prospectus prior to investing. One Washington  
20 investor, who invested around July 2008, received a prospectus dated September 2006, which  
21 included a financial statement showing the real estate properties that Mike Watson Capital had  
22 an indirect interest in as of September 30, 2006. According to the prospectus, as of September  
23 2006, Mike Watson Capital had \$14,314,000 in assets and interests in real estate. Respondents  
24 did not provide updated financial information to this investor.  
25

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

6 16. Around February 2009, Watson informed investors via a webinar that he was having  
7 financial difficulty. According to a Washington investor who listened to the webinar, Watson  
8 blamed the economy for his financial troubles and stated that his assets were used up, and he had  
9 been covering shortfalls personally for a couple years. According to another Washington  
10 investor, Watson stated in a webinar conducted around April 2009 that he would not be able to  
11 make monthly interest payments.  
12

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

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

#### 18 Misrepresentations and Omissions

19 19. Respondents failed to provide material information regarding investing in Mike Watson  
20 Capital, including but not limited to: current financial statements, other information about the  
21 financial condition of Mike Watson Capital and its ability to make payments to investors,  
22 information about the financial condition of Mike Watson Investments, and the general risks of  
23 investing and the specific risks of investing in real estate.  
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1 20. In a document entitled “Advantages to Investing with Mike Watson Capital, LLC,” which  
2 was provided to a Washington investor who invested around July 2008, Watson represents that  
3 he “has never lost an investment dollar.” This is misleading because around October 2007, a real  
4 estate project Watson was involved with did not sell for the amount he expected, and he brought  
5 in funds from Mike Watson Investments to fund the shortfall and pay investors.

6 21. According to the prospectus, “[a]s of September 30<sup>th</sup>, 2006, Mike Watson Capital, LLC  
7 did not directly own any real property.” The prospectus further states that Mike Watson Capital  
8 “had an indirect interest in 36 real estate properties, representing 93% of the Company’s total  
9 investment portfolio.” Mike Watson Capital did not have an indirect interest in those properties.  
10 Respondents failed to disclose the ownership of these properties or how Mike Watson Capital  
11 was affiliated with the properties.  
12

13 22. According to the prospectus, Mike Watson Capital’s “principal strategy is to lend money  
14 to or otherwise obtain an interest in companies which purchase real property. These other  
15 companies purchase direct ownership interests in undervalued real estate, usually multi- or  
16 single-family housing, but also including commercial properties and building lots.” Respondents  
17 failed to disclose the identities of these other companies or fully explain how Mike Watson  
18 Capital would obtain an interest in these companies.  
19

20 23. Respondents misrepresented how Mike Watson Capital would value its real estate  
21 investments. According to the prospectus, individual real properties were to be “valued initially  
22 at their purchase price.” An internal review of each of Mike Watson Capital’s properties was to  
23 be conducted quarterly; however, such quarterly reviews did not always occur.

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

1 Registration Status

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

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

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

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

10  
11 Based upon the Tentative Findings of Fact, the following Conclusions of Law are made:

12 **CONCLUSIONS OF LAW**

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

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

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

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

22 5. The offer or sale of said securities violated RCW 21.20.010 because Respondents, Mike  
23 Watson Investments, LLC; Mike Watson Capital, LLC; Michael Watson; and Joshua Escobedo,  
24

1 in connection with the offer or sale of said securities directly or indirectly made untrue  
2 statements of material fact or omitted to state material facts necessary to make the statements  
3 made, in light of the circumstances under which they were made, not misleading.

4 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

5 Based on the above Tentative Findings of Fact and Conclusions of Law, the Securities  
6 Administrator intend to order, pursuant to RCW 21.20.390(1), that Respondents, Mike Watson  
7 Investments, LLC; Mike Watson Capital, LLC; Michael Watson; and Joshua Escobedo and their  
8 agents and employees, each cease and desist from violations of RCW 21.20.010, RCW  
9 21.20.040, and RCW 21.20.140.  
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11 **NOTICE OF INTENT TO CHARGE COSTS**

12 Pursuant to RCW 21.20.390, and based upon the Tentative Findings of Fact and  
13 Conclusions of Law, the Securities Administrator intends to order that Respondents, Mike  
14 Watson Investments, LLC; Mike Watson Capital, LLC; Michael Watson; and Joshua Escobedo,  
15 shall be liable for and pay the costs, fees, and other expenses incurred in the investigation of not  
16 less than \$2,000.

17 **NOTICE OF INTENT TO IMPOSE FINES**

18 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and  
19 Conclusions of Law, the Securities Administrator intends to order that Respondents, Mike  
20 Watson Investments, LLC, Mike Watson Capital, LLC, and Michael Watson shall be liable for  
21 and pay a fine of \$30,000.  
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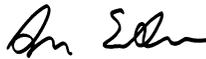
23 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and  
24 Conclusions of Law, the Securities Administrator intends to order that Respondent Joshua  
25 Escobedo shall be liable for and pay a fine of \$10,000.

1 **AUTHORITY AND PROCEDURE**

2 This Statement of Charges is entered pursuant to the provisions of the Securities Act and  
3 is subject to the provisions of RCW 34.05. The respondents may each make a written request for  
4 a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND OPPORTUNITY  
5 FOR HEARING accompanying this order.  
6

7 If a respondent does not request a hearing, the Securities Administrator intends to adopt  
8 the above Tentative Findings of Fact and Conclusions of Law as final and enter an order to cease  
9 and desist permanent as to that respondent.

10 Dated and Entered this 10th day of May, 2010.

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12 SUZANNE SARASON  
13 Chief of Enforcement

14 Presented by:

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16 Jiyoung C. Kwon  
17 Financial Legal Examiner  
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