Division of Securities
Utah Department of Commerce
160 East 300 South, 2nd Floor
Box 146760
Salt Lake City, UT 84114-6760
Telephone: (801) 530-6600
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BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF:	**ORDER TO SHOW CAUSE**
CAPSTONE EQUITY CAPITAL, L.L.C. **ROBERT R. TY** **MICHAEL L. BLOXHAM** **JONATHON R. WATTS** **RESPONDENTS.**	**Docket No.** SD-08-0098 **Docket No.** SD-08-0099 **Docket No.** SD-08-0100 **Docket No.** SD-08-0101

It appears to the Director of the Utah Division of Securities (Director) that Capstone Equity Capital, L.L.C., Robert R. Ty, Michael L. Bloxham, and Jonathon R. Watts have engaged in acts and practices that violate the Utah Uniform Securities Act, Utah Code Ann. § 61-1-1, et seq. (the Act). Those acts are more fully described herein. Based upon information discovered in the course of the Utah Division of Securities' (Division) investigation of this matter, the Director issues this Order to Show Cause in accordance with the provisions of § 61-1-20(1) of the Act.

STATEMENT OF JURISDICTION

1. Jurisdiction over the Respondents and the subject matter is appropriate because the

Division alleges that they violated §§ 61-1-1 (securities fraud), 61-1-7 (sale of unregistered securities), and 61-1-3 (sale by unlicensed agents) of the Act while engaged in the offer and sale of securities in or from Utah.

STATEMENT OF FACTS

THE RESPONDENTS

2. Capstone Equity Capital, L.L.C. (Capstone) was registered as a Utah limited liability company on January 16, 2005, but its entity status expired on February 26, 2007. Jonathan R. Watts and Michael L. Bloxham were the members of Capstone, and Watts was also its registered agent.

3. Robert R. Ty (Ty) is a resident of Salt Lake County, Utah. Ty was formerly licensed in Utah by the Utah Division of Real Estate as a mortgage lender agent with Paradigm Lending Solutions, L.L.C.[1], and at all times relevant to the matters asserted herein, acted as an agent of Capstone.

4. Michael L. Bloxham (Bloxham) is a resident of Salt Lake County, Utah. Bloxham is currently licensed in Utah by the Utah Division of Real Estate as a principal lending manager with Paradigm Lending Solutions, L.L.C., and was one of two members of Capstone.

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[1] Paradigm Lending Solutions, L.L.C. was registered as a Utah limited liability company on November 16, 2005, and its current entity status is "active." Michael L. Bloxham is the sole member of Paradigm Lending Solutions, and Jonathon R. Watts is its registered agent.

5. Jonathon R. Watts (Watts) is a resident of Salt Lake County, Utah. Watts is licensed in Utah by the Utah Division of Real Estate as a mortgage lender agent, and was one of two members of Capstone.

GENERAL ALLEGATIONS

6. From approximately November 2006 through January 2008, Capstone, Ty, Bloxham, and Watts (the Respondents) offered and sold an investment opportunity to at least ten Utah investors, who invested a total of at least $974,000. A detailed narrative of the investments made by three of the ten Utah investors is included below.

7. The Respondents in general told investors their money would be invested in property in Cedar City, Utah. More specifically, some investors were told Capstone planned on developing property (a condominium project) in Cedar City, Utah, and others were told Capstone would purchase and sell property in Cedar City, Utah, for a profit.

8. The Respondents gave investors unrecorded trust deed notes in return for their investments. The notes promised various rates of interest (typically 3% per month) for a term of anywhere from 30 days to one year.

9. The total estimated losses experienced by the ten Utah investors is $789,663.

Investors KN, HN, XN, and HTN

10. Investor KN and her ex-husband, HN, sold their home in Salt Lake County, Utah, in October 2006. KN and HN planned on investing the money from the sale of their home with their realtor for a real estate investment.

11. In October 2006, at the closing on KN and HN's home, the purchaser's real estate agent (Robert R. Ty) told KN and HN about an investment opportunity in Capstone.

12. Ty told KN and HN the following regarding the Capstone investment opportunity:

    a. An investment in Capstone would provide KN and HN with a greater return than investing their money with their realtor;

    b. KN and HN would receive interest of 3% per 30-day increment;

    c. The investment was guaranteed; and

    d. Ty's mother, father, and sister had invested in Capstone and were receiving monthly interest payments.

13. In November 2006, at Capstone's office in Salt Lake County, Ty introduced KN to Jonathon R. Watts, a representative of Capstone.

14. Watts told KN the following regarding the investment opportunity in Capstone:

    a. Capstone needed money to buy land for a development project in Cedar City, Utah;

    b. Once the land was purchased, Capstone would refinance the land, take out equity to repay KN and KN's family;

    c. KN and KN's family would receive interest of 3% every 30 days; and

    d. The investments were short-term.

15. On or about November, 2006, KN introduced her mother (XN), sister (HTN) and HN to Watts and the investment opportunity in Capstone.

16. Between November 2006 and March 2007, KN, HN, XN, and HTN (the family) made the following investments in Capstone:

Date	Amount	Method
11/30/06	$120,000	Cashier's check from XN made payable to Capstone
12/07/06	80,000	Cashier's check from XN made payable to Capstone
12/07/06	90,000	Cashier's check from KN made payable to Capstone
12/13/06	80,000	Official check from XN made payable to Capstone
02/09/07	140,000	Personal check from HN made payable to Capstone
03/30/07	140,000	Personal check from HTN made payable to Capstone
Total =	$650,000	

17. A large portion of the funds invested came from equity lines of credit that Ty encouraged the family to draw upon.

18. In exchange for their investments, the family received the following five trust deed notes (the original notes) from Capstone, all of which appear to have been signed by Watts, with the exception of the last note in March 2007, which was pre-printed with Michael L. Bloxam's signature:

Date	Principal	Lender	Terms
11/30/06	$120,000	XN	3% per 30 days, Matured on 01/15/07
12/07/06	170,000	XN	3% per 30 days, Matured on 02/08/07
12/14/06	80,000	XN	3% per 30 days, Matured on 02/12/07

02/09/07	140,000	XN	3% per 30 days, Matured on 05/04/07
04/01/07	650,000[2]	K2	3% per 30 days, Matured on 12/15/07

19. With the exception of the last note from April 2007, all of the notes were made payable to XN at the request of the family.

20. The March 2007 note was made payable to K2 Investment Group, LLC. On Bloxham's advice, KN, HTN, and XN registered K2 Investment Group in March 2007 as a Utah limited liability company, as a place to hold the family's investments.

21. Bank records reveal that the Respondents used some of the family's investment funds for things other than purchasing the property in Cedar City. For example, using the family's funds, a total of $240,300 was paid to prior investors; $10,000 was split amongst Capstone, Bloxham, and Paradigm Industries, Inc.[3] for a "Christmas bonus"; Paradigm Lending Solutions, L.L.C. was paid $10,445; Ty was paid $36,000; XN and K2 Investment Group were paid $25,400 in interest payments; and a small portion of the family's funds was used to pay miscellaneous living expenses.

22. Bloxham and Watts were the only two individuals with signature authority on Capstone's bank account.

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[2] The $650,000 includes the principal investments for the 11/30/06, 12/07/06, and 12/13/06 notes, plus HTN's $140,000 investment on 03/30/07.

[3] Paradigm Industries Inc. was registered as a Utah corporation on April 3, 2002, but its corporate status expired on August 1, 2006. Bloxham was the director, president, secretary, treasurer, and registered agent of Paradigm Industries.

23. Between December 2006 and April 2008, the family received a total of $122,166.26 in interest payments from either Capstone, Paradigm Lending Solutions, or Bloxham. The payments came in the form of a check made payable to either KN, XN, or K2 Investment Group.

24. The following three interest payments from Capstone to K2 Investment Group were returned for "insufficient funds": an August 8, 2007 check in the amount of $25,000, signed by Watts; an August 24, 2007 check in the amount of $10,000, signed by Bloxham; and an April 5, 2008 check for $3,000, signed by Bloxham.

25. When a trust deed note matured, KN (and often other family members) went to Capstone's office seeking payment. Each time, KN and her family was told by Watts, or later by Bloxham, that the development in Cedar City had been delayed and Capstone needed more time.

26. Bloxham gave the family the following new trust deed notes (roll-over notes), promising to pay the family the remaining balance on their original notes:

Date	Principal	Lender	Terms
01/01/07	$120,000	XN	3% per 30 days, Matured 03/15/07
03/30/07	510,000	K2	$110,000 for 30 days, Matured 07/01/07
05/03/07	140,000	K2	$14,500 per 60 days, Matured 06/01/07
02/20/08	660,000	K2	No interest, Matured 05/20/08

27. Each time Bloxham gave the family a roll-over note, Bloxham told them he needed more

money to extend the purchase contract for the Cedar City development, until he could get permanent financing.

28. Despite their demands, KN, HN, XN, and HTN, have received no additional payments of principal or interest from any of the Respondents.

29. The Respondents still owe KN, HN, XN, and HTN, a total of $650,000 in principal alone.

Investor LT

30. On or about June 6, 2007, LT met with Michael L. Bloxham, at Bloxham's office in Salt Lake County, Utah, to discuss an investment opportunity in Capstone.

31. Bloxham told LT the following about the investment opportunity:

a. LT's funds would be used to purchase real estate, which would later be sold at a profit;

b. Others had invested in Capstone and had no problems with their investments;

c. LT would receive interest of 1.5% per 30-day period;

d. A trust deed note would be recorded in LT's name against the purchased property; and

e. LT would receive his principal plus interest in one year.

32. On or about June 7, 2007, at Bloxham's office, LT invested in Capstone by handing Bloxham a cashier's check for $50,000, made payable to Capstone Equity. LT obtained the $50,000 from an inheritance.

33. In return for his investment, LT received a trust deed note from Capstone. The note was

dated June 6, 2007, promised interest of 1.5% per 30-day period (18% annually) with the balance due on June 6, 2008.

34. Bank records reveal that the Respondents used some of LT's money for things other than the purchase of real estate. For example, using LT's funds, the Respondents paid two different investors a total of $30,300 in interest.

35. Between July 2007 and February 2008, LT received a total of $6,000 in interest payments from Capstone and Paradigm Lending Solutions. The payments came in the form of checks made payable to LT.

36. After payments stopped, LT contacted Bloxham to request a return of his investment. Bloxham told LT that Bloxham would work on getting LT's money as soon as possible.

37. Despite his demands, LT has received no additional payments of principal or interest from the Respondents.

38. The Respondents owe JC $50,000 in principal alone.

Investors LV and JV

39. On or about June 5, 2007, in Salt Lake County, Ty told LV and JV, husband and wife, about an investment opportunity in Capstone.

40. Ty told LV and JV the following about the investment opportunity:

    a. LV and JV could make a return of 3% on their invested funds;

    b. Their money would be used to "flip" a real estate project in Cedar City, Utah;

    c. There were 15 other investors in the project;

d. Ty's wife, sister, and his parents, had all invested in the project;

e. Ty invested $350,000 of his own money in the project;

f. Ty was receiving interest payments of $9,000 per month; and

g. Ty guaranteed that Ty would "take care" of their investment.

41. According to LV and JV, they invested a total of $140,000 in Capstone between July 2007 and February 2008, using funds obtained from a home equity loan. The funds were invested via cash and both personal checks and cashier's checks.

42. The bank records for Capstone and Paradigm Lending Solutions reflect a total of $95,000 in deposits that correspond to LV and JV's investments.

43. The statements that Capstone and Paradigm Lending Solutions gave to LV and JV regarding their investments reflect a total investment of $115,000.

44. In return for their investments, LV and JV received the following trust deed notes from Capstone and Paradigm Lending Solutions, all of which appear to have been signed by Bloxham:

Date	Principal	Lender	Terms
07/11/07	$60,000	JV	3% per 30 days, Matured on 09/11/07
07/27/07	5,000	LV	3% per 30 days, Matured on 10/31/07
07/31/07	25,000	LV	3% per 30 days, Matured on 10/31/07
08/01/07	10,000	LV	3% per 30 days, Matured on 09/01/07
08/16/07	10,000	LV	3% per 30 days, Matured on 11/28/07

01/14/08	10,000	LV	3% per 30 days, Matured on 03/15/08
Total =	$120,000		

45. Between August 2007 and February 2008, LV and JV received a total of $44,500 in interest payments from Capstone. The payments came in the form of a check made payable to LV.

46. On or about February 25, 2008, Bloxham combined all of LV and JV's investments into one new trust deed note (roll-over note) promising to pay LV principal of $144,283.81, at the rate of 3% per 30-day period, with a maturity date of May 25, 2008.

47. Despite repeated demands, LV and JV received no additional payments of principal or interest from the Respondents.

48. The Respondents owe LV and JV a total of approximately $115,000 in principal alone.

CAUSES OF ACTION

COUNT I
Securities Fraud under § 61-1-1 of the Act

49. The Division incorporates and re-alleges paragraphs 1 through 48.

50. The trust deed notes (promissory notes) offered and sold by the Respondents are securities under § 61-1-13 of the Act.

51. In connection with the offer and sale of securities to investors, the Respondents, directly or indirectly, made false statements, including, but not limited to, the following:

    a. Watts told KN, HN, XN, and HTN their money would be used to purchase

property in Cedar City, Utah;

b. Watts and Ty told KN, HN, XN, and HTN that the investment was short-term;

c. Bloxham told KN, HN, XN, and HTN that their rolled-over investment funds would be used to refinance the property in Cedar City;

d. Bloxham told LT his funds would be used to purchase real estate;

e. Bloxham told LT that others had invested in Capstone and had not had any problems with their investment; and

f. Ty guaranteed LV and JV that Ty would "take care" of their investment.

52. In connection with the offer and sale of securities to investors, the Respondents, directly or indirectly, failed to disclose material information, including, but not limited to, the following, which was necessary in order to make representations made not misleading:

a. Watts had two Utah State tax liens against him, one from 1994 and one from 2000, totaling over $3,600. Both tax liens had been satisfied and/or dismissed by the time people invested in Capstone;

b. Bloxham has had numerous Utah State tax liens against him, three from 1992, one from 2003, and one from 2005, totaling over $7,000. All five tax liens against Bloham had been satisfied and/or dismissed by the time people invested in Capstone;

c. LV and JV were not told that a prior investor initiated a civil suit against Capstone, Bloxham, and Watts on December 19, 2007, to recover funds invested

in Capstone;

d. Some of the funds invested would be used to pay interest payments to investors, to pay miscellaneous living expenses, and other expenses not associated with developing or purchasing property in Cedar City, Utah;

e. None of the trust deed notes were recorded with the county recorder's office, meaning the notes were unsecured;

f. LV and JV were not told that prior to making their last investment in Capstone, Capstone issued a bad check in the amount of $20,000 to a prior investor;

g. JC, LV, and JV were not told that Capstone had already failed to perform as promised pursuant to promissory notes issued to at least two prior investors;

h. Some or all of the information typically provided in an offering circular or prospectus regarding Capstone, such as:

   i. Capstone's business and operating history;

   ii. The principals' experience with buying, developing, and selling real estate;

   iii. Capstone's financial statements;

   iv. The market for Capstone's service(s);

   v. The nature of the competition for the service(s);

   vi. Capstone's current capitalization;

   vii. The track record of Capstone to other investors;

viii. The number of other investors;

ix. The minimum capitalization needed to participate in the investment;

x. The disposition of any investments received if the minimum capitalization were not achieved;

xi. Discussion of pertinent suitability factors for the investment;

xii. Any conflicts of interest the issuer, the principals, or the agents may have with regard to the investment;

xiii. Agent commissions or compensation for selling the investment;

xiv. Whether the investment is a registered security or exempt from registration; and

xv. Whether the person selling the investment is licensed.

53. Based upon the foregoing, Capstone Equity Capital, Inc., Robert R. Ty, Michael L. Bloxham, and Jonathon R. Watts violated § 61-1-1 of the Act.

COUNT II
Sale of Unregistered Securities under § 61-1-7 of the Act

54. The Division incorporates and re-alleges paragraphs 1 through 53.

55. The trust deed notes (promissory notes) offered and sold by the Respondents are securities under § 61-1-13 of the Act.

56. The securities were offered and sold in this state.

57. The securities offered and sold by the Respondents were not registered under the Act,

and Respondents did not file any claim of exemption relating to the securities.

58. Based upon the foregoing, Capstone Equity Capital, Inc., Robert R. Ty, Michael L. Bloxham, and Jonathon R. Watts violated § 61-1-7 of the Act.

COUNT III
Sale by an Unlicensed Agent under § 61-1-3 of the Act

59. The Division incorporates and re-alleges paragraphs 1 through 58.

60. Robert R. Ty, Michael L. Bloxham, and Jonathon R. Watts offered or sold securities in Utah.

61. When offering and selling these securities on behalf of Capstone, Robert R. Ty, Michael L. Bloxham, and Jonathon R. Watts was acting as agents of an issuer.

62. Robert R. Ty, Michael L. Bloxham, and Jonathon R. Watts have never been licensed to sell securities in Utah as an agent of this issuer, or any other issuer.

63. Based on the above information, Robert R. Ty, Michael L. Bloxham, and Jonathon R. Watts violated § 61-1-3(1) of the Act.

ORDER

The Director, pursuant to § 61-1-20 of the Act, hereby orders the Respondents to appear at a formal hearing to be conducted in accordance with Utah Code Ann. §§ 63-46b-4 and 63-46b-6 through -10, and held before the Utah Division of Securities. The hearing will occur on Wednesday, January 7th, 2009, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2nd Floor, Salt Lake City, Utah. The

purpose of the hearing is to establish a scheduling order and address any preliminary matters. If the Respondents fail to file an answer and appear at the hearing, the Division of Securities may hold Respondents in default, and a fine may be imposed in accordance with Utah Code Ann. § 63-46b-11. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-10. At the hearing, the Respondents may show cause, if any they have:

a. Why Capstone Equity Capital, Inc., Robert R. Ty, Michael L. Bloxham, and Jonathon R. Watts should not be found to have engaged in the violations alleged by the Division in this Order to Show Cause;

b. Why Capstone Equity Capital, Inc., Robert R. Ty, Michael L. Bloxham, and Jonathon R. Watts should not be ordered to cease and desist from engaging in any further conduct in violation of Utah Code Ann. § 61-1-1, or any other section of the Act;

c. Why Capstone Equity Capital, Inc. should not be ordered to pay a fine of one million dollars ($1,000,000) to the Division of Securities, which may be reduced by restitution paid to the investors;

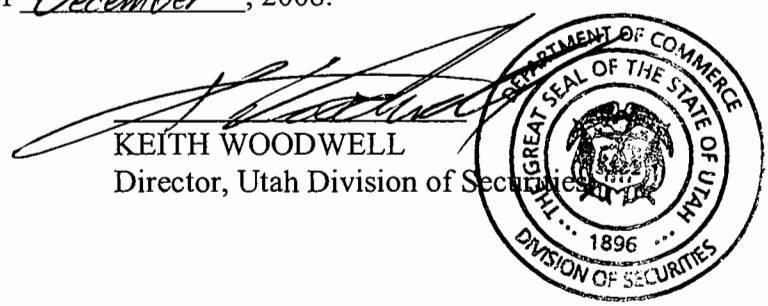
d. Why Robert R. Ty should not be ordered to pay a fine of five hundred thousand dollars ($500,000) to the Division of Securities, which may be reduced by restitution paid to the investors;

e. Why Michael L. Bloxham should not be ordered to pay a fine of five hundred thousand dollars ($500,000) to the Division of Securities, which may be reduced

by restitution paid to the investors;

f. Why Jonathon R. Watts should not be ordered to pay a fine of five hundred thousand dollars ($500,000) to the Division of Securities, which may be reduced by restitution paid to the investors.

DATED this 4th day of December, 2008.



KEITH WOODWELL
Director, Utah Division of Securities

Approved:

JEFF BUCKNER
Assistant Attorney General

A. K.

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BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF:	NOTICE OF AGENCY ACTION
CAPSTONE EQUITY CAPITAL, L.L.C.	Docket No. SD-08-0098
ROBERT R. TY	Docket No. SD-08-0099
MICHAEL L. BLOXHAM	Docket No. SD-08-0100
JONATHON R. WATTS	Docket No. SD-08-0101
Respondents.	

THE DIVISION OF SECURITIES TO THE ABOVE-NAMED RESPONDENTS:

The purpose of this Notice of Agency Action is to inform you that the Division hereby commences a formal adjudicative proceeding against you as of the date of the mailing of the Order to Show Cause. The authority and procedure by which this proceeding is commenced are provided by Utah Code Ann. §§ 63-46b-3 and 63-46b-6 through 11. The facts on which this action is based are set forth in the foregoing Order to Show Cause.

Within thirty (30) days of the mailing date of this notice, you are required to file an Answer with the Division. The Answer must include the information required by Utah Code §

63-46b-6 (1). In addition, you are required by § 63-46b-6 (3) to state: a) by paragraph, whether you admit or deny each allegation contained in the Order to Show Cause, including a detailed explanation for any response other than an unqualified admission; b) any additional facts or documents which you assert are relevant in light of the allegations made; and c) any affirmative defenses (including exemptions or exceptions contained within the Utah Uniform Securities Act) which you assert are applicable. To the extent that factual allegations or allegations of violations contained in the Order to Show Cause are not disputed in your Answer, they will be deemed admitted.

Your Answer, and any future pleadings or filings that should be part of the official files in this matter, should be sent to the following:

Signed originals to:	A copy to:
Administrative Court Clerk c/o Pam Radzinski Division of Securities 160 E. 300 S., Second Floor Box 146760 Salt Lake City, UT 84114-6760 (801) 530-6600	Jeff Buckner Assistant Attorney General 160 E. 300 S., Fifth Floor Box 140872 Salt Lake City, UT 84114-0872 (801) 366-0310

A hearing date has been set for Wednesday, January 7, 2009, at 9:00 a.m., at the office of the Utah Division of Securities, located in the Heber Wells Building, 160 East 300 South, 2nd Floor, Salt Lake City, Utah.

If you fail to file an Answer, as set forth herein, or fail to appear at the hearing, the Division of Securities may hold you in default, and a fine and other sanctions may be imposed against you in accordance with Utah Code Ann. § 63-46b-11, without the necessity of providing you with any further notice. In lieu of default, the Division may decide to proceed with the hearing under § 63-46b-10. At the hearing, you may appear and be heard and present evidence on your behalf. You may be represented by counsel during these proceedings.

The Administrative Law Judge will be J. Steven Eklund, Utah Department of Commerce, 160 East 300 South, P.O. Box 146701, Salt Lake City, UT 84114-6701, telephone (801) 530-6648. Pursuant to U.C.A. Subsection 63-46b-2(1)(h), Mr. Eklund is hereby designated as presiding officer for the purpose of conducting this formal administrative proceeding. Questions regarding the Order to Show Cause and Notice of Agency Action should be directed to the Division's attorney, Jeff Buckner, at (801) 366-0310.

DATED this 4th day of December, 2008.

KEITH WOODWELL
Director, Division of Securities

CERTIFICATE OF MAILING

I hereby certify that on the 8th day of December 2008, I mailed, by certified mail, a true and correct copy of the forgoing **Order to Show Cause and Notice of Agency Action** to:

CAPSTONE EQUITY CAPITAL LLC
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Pam Radzinski

Pam Radzinski
Executive Secretary