

Division of Securities
Utah Department of Commerce
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BEFORE THE DIVISION OF SECURITIES
OF THE DEPARTMENT OF COMMERCE
OF THE STATE OF UTAH

IN THE MATTER OF:

CAPSTONE EQUITY CAPITAL, L.L.C.
ROBERT R. TY
MICHAEL L. BLOXHAM
JONATHON R. WATTS

Respondents.

**STIPULATION AND CONSENT
ORDER AS TO MICHAEL L.
BLOXHAM:**

Docket No. SD -07-0035
Docket No. SD -07-0036
Docket No. SD -07-0037
Docket No. SD -07-0037

The Utah Division of Securities (the Division), by and through its Director of Enforcement, Michael Hines, and Michael L. Bloxham (Bloxham), hereby stipulate and agree as follows:

1. Bloxham (Bloxham) and others were the subjects of an investigation conducted by the Division into allegations that they violated certain provisions of the Utah Uniform Securities Act (the Act), Utah Code Ann. § 61-1-1, *et seq.*, as amended.
2. In connection with that investigation, the Division issued an Order to Show Cause against

Bloxham and others on December 4, 2008, alleging securities fraud, sale of an unregistered security, and sale by an unlicensed agent. Criminal charges were also filed against Bloxham,¹ Robert R. Ty (Ty),² and Jonathan R. Watts³ (Watts), in connection with the investigation.

3. On January 23, 2009, Bloxham and others moved to stay the administrative action pending resolution of the criminal charges. The motion was never ruled on.
4. Bloxham is represented by attorney Rebecca Skordas of Skordas Caston & Hyde and is satisfied with his representation.
5. Bloxham waives any right to a hearing to challenge the Division's evidence and present evidence on his behalf.
6. Bloxham also acknowledges that this stipulation and consent order does not affect any enforcement action that might be brought by a criminal prosecutor or any other local, state, or federal enforcement authority.

¹*State of Utah v. Michael Lynn Bloxham*, Case No. 091910084, Third Judicial District Court of Utah (2009). Bloxham later pleaded guilty to three counts of attempted securities fraud, a third degree felony, and two counts of attempted theft, a third degree felony.

²*State of Utah v. Robert Razo Ty*, Case No. 091910086, Third Judicial District Court of Utah (2009). On December 29, 2009, a warrant was issued against Ty. He is believed to have fled the country to the Phillipines.

³*State of Utah v. Jonathon R. Watts*, Case No. 091910085, Third Judicial District Court of Utah (2009). Watts later pleaded guilty to one count of securities fraud, a second degree felony, one count of attempted theft, a second degree felony, and one count of pattern of unlawful activity, a second degree felony.

7. Bloxham admits the jurisdiction of the Division over him and over the subject matter of this action.

I. THE DIVISION'S FINDINGS OF FACT

THE RESPONDENT

8. Bloxham was, at all relevant times, a resident of Salt Lake County, Utah. Bloxham was one of two members of Captstone Equity Capital, LLC (Capital). He was also the principal lending manager of Paradigm Lending Solutions, LLC, and was licensed by the Utah Division of Real Estate.

GENERAL ALLEGATIONS

9. From approximately November 2006 through January 2008, Bloxham and others 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.
10. Bloxham and others 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.
11. Bloxham and others 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.

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

Investors KN, HN, XN, and HTN

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

<u>Date</u>	<u>Amount</u>	<u>Method</u>
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 =	<u>\$650,000</u>	

14. 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. Bloxham's signature:

<u>Date</u>	<u>Principal</u>	<u>Lender</u>	<u>Terms</u>
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 ⁴	K2	3% per 30 days, Matured on 12/15/07

15. 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.
16. 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.
17. Bank records reveal that Bloxham and others 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.⁵ 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.

⁴ 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.

⁵ 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.

18. Bloxham and Watts were the only two individuals with signature authority on Capstone's bank account.
19. 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.
20. 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.
21. 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.
22. 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:

<u>Date</u>	<u>Principal</u>	<u>Lender</u>	<u>Terms</u>
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

23. 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.
24. Despite their demands, KN, HN, XN, and HTN, have received no additional payments of principal or interest from any of the Respondents.
25. KN, HN, XN, and HTN are still owed a total of \$650,000 in principal alone.

Investor LT

26. On or about June 6, 2007, LT met with Bloxham, at Bloxham's office in Salt Lake County, Utah, to discuss an investment opportunity in Capstone.
27. 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.

28. 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.
29. 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.
30. 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.
31. 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.
32. 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.
33. Despite his demands, LT has received no additional payments of principal or interest from the Respondents.
34. JC is still owed \$50,000 in principal alone.

Investors LV and JV

35. Between July 2007 and February 2008, LV and JV invested a total of \$140,000 in

Capstone, using funds obtained from a home equity loan. The funds were invested via cash and both personal checks and cashier's checks.

36. 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.
37. The statements that Capstone and Paradigm Lending Solutions gave to LV and JV regarding their investments reflect a total investment of \$115,000.
38. 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:

<u>Date</u>	<u>Principal</u>	<u>Lender</u>	<u>Terms</u>
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 =	<u>\$120,000</u>		

39. 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.

40. 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.
41. Despite repeated demands, LV and JV received no additional payments of principal or interest from Capstone.
42. Capstone 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

43. In connection with the offer and sale of a security to the investors, Bloxham directly or indirectly, made false statements, including but not limited to, the following:
 - a. KN, HN, XN, and HTN were told their money would be used to purchase property in Cedar City, Utah;
 - b. KN, HN, XN, and HTN were told 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. LV and JV were guaranteed that Ty would “take care” of their investment.
44. In connection with the offer and sale of a security, Bloxham, directly or indirectly, failed to disclose material information, including, but not limited to, the following, which was necessary in order to make representations 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 Bloxham 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 Bloxham and others 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:
 - Capstone's business and operating history;
 - The principals' experience with buying, developing, and selling real estate;
 - Capstone's financial statements;
 - The market for Capstone's service(s);
 - The nature of the competition for the service(s);
 - Capstone's current capitalization;
 - The track record of Capstone to other investors;
 - The number of other investors;
 - The minimum capitalization needed to participate in the investment;
 - The disposition of any investments received if the minimum capitalization were not achieved;
 - Discussion of pertinent suitability factors for the investment;
 - Any conflicts of interest the issuer, the principals, or the agents may have with regard

to the investment;

Agent commissions or compensation for selling the investment;

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

Whether the person selling the investment is licensed.

45. Based upon the foregoing, Bloxham violated § 61-1-1(2) of the Act.

COUNT II

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

46. The trust deed notes (promissory notes) offered and sold by Bloxham and others 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 Bloxham did not file any claim of exemption relating to the securities.
58. Based upon the foregoing, Bloxham violated § 61-1-7 of the Act.

COUNT III

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

47. Bloxham offered or sold securities in Utah.
48. When offering and selling these securities on behalf of Capstone, Bloxham was acting as an agent of an issuer.
49. Bloxham has never been licensed to sell securities in Utah as an agent of this issuer, or any other issuer.

50. Based on the above information, Bloxham violated § 61-1-3(1) of the Act.

II. THE DIVISION'S CONCLUSIONS OF LAW

51. Based on the Division's investigative findings, the Division concludes that:

The investment opportunities offered and sold by Bloxham are securities under § 61-1-13 of the Act;

Bloxham violated § 61-1-1(2) of the Act by misstating and omitting to state material facts in connection with the offer and sale of a security.

Bloxham violated § 61-1-7 of the Act by selling an unregistered security.

Bloxham violated § 61-1-3(1) of the Act by acting as an agent of an issuer without a securities license.

III. REMEDIAL ACTIONS/SANCTIONS

52. Bloxham admits the Division's findings and conclusions and consents to the sanctions below being imposed by the Division.

53. Bloxham represents that any information he provided to the Division as part of the Division's investigation of this matter is accurate.

54. Bloxham agrees to the imposition of a cease and desist order, prohibiting him from any conduct that violates the Act.

55. Bloxham agrees that he will be barred from (i) associating⁶ with any broker-dealer or investment adviser licensed in Utah; (ii) acting as an agent for any issuer soliciting investor funds in Utah, and (iii) from being licensed in any capacity in the securities industry in Utah.
56. Bloxham agrees to cooperate with the Division, the State of Utah, and the Federal Government in any future investigations and/or prosecutions relevant to the matter herein.
57. Bloxham agrees to pay restitution as ordered in the criminal case, *State of Utah v. Michael Lynn Bloxham*, Case No. 091910084, Third Judicial District Court of Utah (2009).

IV. FINAL RESOLUTION

58. Bloxham acknowledges that this Order, upon approval by the Securities Commission shall be the final compromise and settlement of this matter.
59. Bloxham further acknowledges that if the Securities Commission does not accept the terms of the Order, it shall be deemed null and void and without any force or effect whatsoever.
60. Bloxham acknowledges that the Order does not affect any civil or arbitration causes of action that third-parties may have against him rising in whole or in part from their actions, and that the Order does not affect any criminal causes of action that may arise as a result of his

⁶“Associating” includes, but is not limited to, acting as an agent of, receiving compensation directly or indirectly from, or engaging in any business on behalf of a broker-dealer, agent, investment adviser, or investment adviser representative licensed in Utah. “Associating” does not include any contact with a broker-dealer, agent, investment adviser, or investment adviser representative licensed in Utah incidental to any personal relationship or business not related to the sale or promotion of securities or the giving of investment advice in the State of Utah.

conduct referenced herein.

61. The Stipulation and Consent Order constitutes the entire agreement between the parties herein and supersedes and cancels any and all prior negotiations, representations, understandings, or agreements between the parties. There are no verbal agreements which modify, interpret, construe, or otherwise affect the Order in any way.

Utah Division of Securities

Michael Lynn Bloxham

Date: 8/24/11

By: [Signature]
Michael Hines
Director of Enforcement

Approved:

[Signature]
Rebecca Skordas
Attorney for Respondent

Approved:

[Signature]
Jeff Buckner
Assistant Attorney General
S.J.

Respondent Bloxham

Date: 7/24/11

By: [Signature]

ORDER

IT IS HEREBY ORDERED THAT:

The Division has made a sufficient showing of Findings of Fact and Conclusions of Law to form a basis for this settlement.

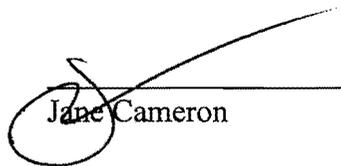
1. Bloxham ceases and desists from violating the Utah Uniform Securities Act.
2. Bloxham agrees to be permanently barred from the securities industry.
3. Bloxham cooperates with the Division in any future investigations.
4. Bloxham agrees to pay restitution as ordered in the case, *State of Utah v. Michael Lynn Bloxham*, Case No. 091910084, Third Judicial District Court of Utah (2009).

BY THE UTAH SECURITIES COMMISSION:

DATED this 27 day of October, 2011.

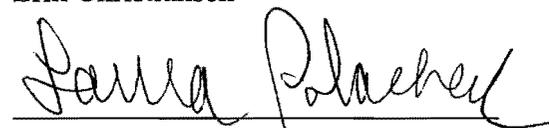


Tim Bangerter



Jane Cameron

Erik Christiansen



Laura Polacheck

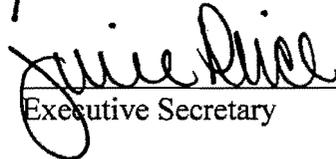
Jan Graham 

Certificate of Mailing

I certify that on the 1st day of NOVEMBER, 2011, I mailed, by certified mail, a true and correct copy of the Stipulation and Consent Order to:

Michael Lynn Bloxham
c/o Attorney Rebecca Skordas
Skordas, Caston, and Hyde
341 S. Main St. #303
Salt Lake City, UT 84111

Certified Mailing # 7007 0226 0001 0003 USA7



Executive Secretary