

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9066 / September 29, 2009

SECURITIES EXCHANGE ACT OF 1934
Release No. 60732 / September 29, 2009

INVESTMENT ADVISERS ACT OF 1940
Release No. 2928 / September 29, 2009

ADMINISTRATIVE PROCEEDING
File No. 3-13630

In the Matter of

**UNITED GLOBAL
SECURITIES, INC. AND
RICHARD D. BLAIR**

Respondents.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933, SECTIONS 15(b)
AND 21C OF THE SECURITIES EXCHANGE
ACT OF 1934, AND SECTIONS 203(e), 203(f)
AND 203(k) OF THE INVESTMENT
ADVISERS ACT OF 1940, MAKING
FINDINGS, AND IMPOSING REMEDIAL
SANCTIONS AND A CEASE-AND-DESIST
ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against United Global Securities, Inc. and Richard D. Blair (“Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings

herein, except as to the Commission's jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Sections 15(b) and 21C of the Securities Exchange Act of 1934, and Sections 203(e), 203(f) and 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order ("Order"), as set forth below.

III.

On the basis of this Order and Respondents' Offer, the Commission finds¹ that:

Summary

Respondents convinced 18 customers to surrender variable annuities and repurchase new variable annuities twice within an 18 month period beginning in late 2004. In general, the Respondents represented that the cost of the transactions would be minimal. The two rounds of transactions cost the 17 customers about 11% of the total principal under investment, however, while United Global received \$208,347 in commissions. Additionally, Blair caused United Global to maintain inaccurate books and records and operate with a net capital deficiency in January and February 2007.

Respondents

1. United Global Securities, Inc. ("United Global"), incorporated in Texas in 1993, has its office in Sugar Land, Texas. It is a broker-dealer registered with the Commission, and an investment adviser registered with the State Securities Board of Texas. United Global does not carry customer accounts or hold customer or client assets. United Global has approximately 3,000 brokerage customers and 400 advisory clients (referred to collectively as "customers"). Most are public school educators and retired educators in the Houston, Texas area.

2. Richard D. Blair ("Blair"), 39, of Sugar Land, Texas, is the president, sole shareholder and sole registered representative of United Global.

Variable Annuity Sales, Charges and Commissions

3. From at least January 2004 through December 2006, Respondents primarily sold securities in the form of variable annuities to its customers. Variable annuities are generally long-term investments that have components of both insurance products and securities. An insurance component provides a death benefit for the owner's beneficiaries. In addition, the owner can allocate his contributions among various investment options (or subaccounts) offered through the contract. Many variable annuities impose an asset-based surrender charge that declines over a period of years. These surrender charges may in part cover the cost of the commission paid by the insurance company issuer to the broker-dealer selling the annuity.

¹ The findings herein are made pursuant to Respondents' Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

4. From January 2004 through December 2006, pursuant to Respondents' recommendations, 17 brokerage customers (three of whom were also advisory clients) engaged in two rounds of "switches," by which the customers surrendered annuities before the end of the surrender period and used the proceeds of the surrendered annuities to invest in new variable annuities supposedly offering better investment terms.

5. In recommending the first round of transactions, Respondents represented that the 17 customers would incur only minimal surrender charges, and that they would recoup the charges through a bonus payment from the issuer of the new annuity. Respondents omitted to disclose that the customers, not the issuer, paid for the bonuses through higher mortality and expense risk charges, and that the bonus had a vesting period. In the first round of surrenders, the surrender charges totaled \$134,374, approximately 6% of the total \$2,098,107 under investment at that time. While the customers received bonuses of \$124,700, about 93% of the surrender charges of \$134,374, the bonus vesting period had not expired at the time of the second round of surrenders. In recommending the second round of surrenders, Respondents again represented that the surrender charges would be minimal. Instead, the second round surrender and recapture charges totaled \$282,224, approximately 14% of the \$2,087,057 under investment at that time. Also, while the Respondents again represented that the customers would recoup their surrender charges through bonuses, the bonuses equaled only about 46% of the associated surrender charges.

6. Together, the two rounds of transactions cost the 17 customers about 11% of the total principal under investment, with individual costs ranging from about 8% to nearly 15%. After the two rounds of transactions, the customers gained only \$4,750, or 0.22%, over the original \$2,098,107 under investment, even though the customers were invested during a time of market gains and even though they contributed a net \$123,325 to the annuities.

7. United Global received \$208,347 in commissions from the sales to the 17 customers.

Unearned Advances and Net Capital Deficiencies

8. United Global had received commission advances from an issuer of the variable annuities, including upon annuity sales that either failed to close or that closed at lesser amounts than anticipated. On January 22, 2007, the issuer advancing the commissions made demand for repayment of \$1.9 million in unearned commission advances.

9. Blair failed to cause the books and records of United Global to reflect any liability, and United Global incorrectly computed its net capital. As of January 31, 2007, United Global was required to maintain net capital of \$134,000.² If the books and records of United Global had included the commission liability of \$1.9 million, a correct net capital computation would have shown a deficiency of about \$1.56 million.

² Under Rule 15c3-1(a)(2)(vi) of the Exchange Act, United Global was required to maintain minimum net capital of the greater of \$5,000 or 6.66% of its aggregate indebtedness, which was \$134,000 as of January 31, 2007.

10. On February 2, 2007, Blair used the proceeds of a \$750,000 loan and other firm assets to pay \$892,000 upon the undisputed portion of the excess commission advances. The loan, however, was secured by an encumbrance upon United Global's assets. Blair did not consider the effect of this encumbrance in computing net capital after February 2, 2007. Had the books and records of United Global reflected the effect of the encumbrance, its net capital deficiency would have been about \$467,000.

11. United Global did not cease business operations until February 15, 2007, even while Blair was seeking a loan to rectify the net capital deficiency.³ United Global did not, however, give notice to the Commission of the net capital deficiency with the Commission as required by Exchange Act Rule 17a-11(b)(1). In addition, it did not give notice that its books and records were not accurate and did not provide a report regarding how it intended to cure the books and records deficiency, as required by Exchange Act Rule 17a-11(d).

Violations

12. As a result of the conduct described above, United Global and Blair willfully violated Sections 17(a)(2) and 17(a)(3) of the Securities Act, which prohibit making material misstatements and omissions in the offer and sale of securities.⁴

13. As a result of the conduct described above, United Global and Blair willfully violated Section 206(2) of the Advisers Act, which prohibits engaging in transactions, practices, or courses of business which operate as a fraud or deceit upon any client or prospective client.

14. As a result of the conduct described above, United Global willfully violated, and Blair willfully aided and abetted and caused the violations of, Section 15(c)(3)(A) of the Exchange Act and Rule 15c3-1 thereunder, which establish safeguards with respect to the financial responsibility of brokers and dealers.

15. As a result of the conduct described above, United Global willfully violated, and Blair willfully aided and abetted and caused the violations of, Section 17(a)(1) of the Exchange Act and Rules 17a-3(a) and 17a-11 thereunder, which require registered brokers and dealers to make and keep current books and records relating to their business, and to file certain reports with the Commission.

³ United Global returned to net capital compliance and resumed business operations on February 28, 2007, after the encumbrance upon firm assets was released.

⁴ A willful violation of the securities laws means merely “that the person charged with the duty knows what he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)).

Respondents' Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondents and cooperation afforded the Commission staff.

Undertakings

Respondents have undertaken to:

16. Retain within 30 days of the date of entry of this Order, an Independent Consultant, acceptable to the staff of the Commission, to review the supervisory, compliance and other policies and procedures of Respondents regarding (a) customer and client suitability, sophistication and investment objectives, (b) disclosures in any transactions involving variable annuities, and (c) internal accounting practices and procedures.

17. No more than 120 days after the date of the entry of this Order, submit to the staff of the Commission a written report that Respondents will obtain from the Independent Consultant regarding Respondents' policies and procedures. The report will include a description of the review performed, the conclusions reached, the Independent Consultant's recommendations for changes in or improvements to the policies and procedures, and a procedure for implementing any recommended changes.

18. Adopt all recommendations made by the Independent Consultant, provided, however, that within 150 days after the date of the entry of this Order, Respondents will in writing advise the Independent Consultant and the staff of the Commission of any recommendations it considers unnecessary or inappropriate. With respect to any recommendation that Respondents consider unnecessary or inappropriate, Respondents need not adopt that recommendation at that time, but instead propose in writing an alternative policy, procedure, or system designed to achieve the same objective or purpose. As to any recommendation with respect to Respondents' policies and procedures on which Respondents and the Independent Consultant do not agree, they will attempt in good faith to reach an agreement within 180 days of the date of entry of the Order. In the event Respondents and the Independent Consultant are unable to agree on an alternative proposal, Respondents will abide by the determinations of the Independent Consultant.

19. No later than one year after the date of the entry of this Order, submit to the staff of the Commission a written Final Report that Respondents will obtain from the Independent Consultant that will contain the Independent Consultant's conclusions regarding Respondents' compliance with this Order, Respondents' implementation of the policies and procedures adopted under this Order, and make any further recommendations the Independent Consultant deems necessary. Respondents will adopt the recommendations contained in the Final Report within 30 days.

20. Require the Independent Consultant to enter into an agreement that provides that for the period of engagement and for a period of two years from completion of the engagement,

the Independent Consultant shall not enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondents, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity. The agreement will also provide that the Independent Consultant will require that any firm with which he/she is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performance of his/her duties under this Order shall not, without prior written consent of the staff of the Commission, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondents, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondents' Offer.

Accordingly, pursuant to Section 8A of the Securities Act, Sections 15(b) and 21C of the Exchange Act, and Sections 203(e), 203(f) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent United Global cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act, Sections 15(c)(3)(A) and 17(a)(1) of the Exchange Act and Rules 15c3-1, 17a-3(a), and 17a-11 thereunder, and Section 206(2) of the Advisers Act.

B. Respondent Blair cease and desist from committing or causing any violations and any future violations of Sections 17(a)(2) and (3) of the Securities Act and Section 206(2) of the Advisers Act.

C. Respondent Blair cease and desist from causing any violations and any future violations by United Global of Sections 15(c)(3)(A) and 17(a)(1) of the Exchange Act and Rules 15c3-1, 17a-3(a), and 17a-11 thereunder.

D. Respondent United Global is censured.

E. Respondent Blair is censured.

F. Respondents, jointly and severally, shall, within 10 days of the entry of the Order, pay a civil money penalty in the amount of \$25,000, to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies United Global Securities, Inc. and Richard D. Blair as

Respondents in these proceedings and the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Stephen Korotash, Division of Enforcement, Securities and Exchange Commission, 801 Cherry Street, Suite 1900, Fort Worth, Texas 76102.

G. Respondents shall comply with the undertakings enumerated in Section III paragraphs 16 through 20 above.

By the Commission.

Elizabeth M. Murphy
Secretary