

STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT

IN THE MATTER OF: RONALD HEINEMAN

FILE NO: 0400470

CONSENT ORDER OF DISMISSAL

**TO THE RESPONDENT:**

Ronald M. Heineman  
(CRD #: 241924)  
150 East 69<sup>th</sup> Street  
New York, NY 10021

C/O Vertical Capital Partners, Inc.  
Attention: Susan Diamond  
488 Madison Avenue, 8<sup>th</sup> Floor  
New York, 10022

Jerry M. Santangelo Esq.  
Neal, Gerber & Eisenberg LLP  
Two North LaSalle Street  
Chicago, Illinois 60602-3801

WHEREAS, Respondent on the 30<sup>th</sup> day of June 2006 executed a certain Stipulation to Enter Consent Order of Dismissal (the "Stipulation"), which hereby is incorporated by reference herein.

WHEREAS, by means of the Stipulation, Respondent has admitted to the jurisdiction of the Secretary of State and service of the Amended Notice of Hearing of the Secretary of State, Securities Department, dated May 23, 2006 in this proceeding (the "Notice") and Respondent has consented to the entry of this Consent Order of Dismissal ("Consent Order").

WHEREAS, by means of the Stipulation, the Respondent acknowledged, without admitting or denying the truth thereof, that the following allegations contained in the Amended Notice of Hearing shall be adopted as the Secretary of State's Findings of Fact:

Consent Order Of Dismissal

1. That on July 1, 2004, Ronald M. Heineman's Letter of Acceptance, Waiver and Consent was accepted by NASD's National Adjudicatory Council ("NAC") Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of NAC which imposed the following sanctions:
  - a. A suspension from association with any NASD member in all capacities for a period of thirty (30) days; and
  - b. A fine in the amount of Twenty-Two Thousand Five-Hundred (\$22,500) Dollars.
2. That NASD listed the following background information for Respondent: Respondent has been employed by Vertical Capital as its President, Registered Principal, and Registered Representative since May 29, 1997. Respondent was first registered with NASD in 1969 and became a General Securities Principal in 1971. Prior to Vertical Capital, Respondent was employed by or associated with other member firms.
3. That the decision found:
  - a. Vertical Capital (BD #35909) is member of NASD located in New York, New York, and is approved by NASD as a broker-dealer, underwriter and selling group participant. From September 1995 through July 27, 2001, Vertical Capital was known as Security Capital Trading, Inc.
  - b. Morris was employed by Security Capital and Vertical Capital from January 2, 1998 until November 7, 2001 as a research analyst. He holds, and at all relevant times held, the Series 1, 7, and 63 licenses. Morris also holds a Masters of Business Administration degree from New York University, and the Chartered Financial Analyst designation.
  - c. Respondent is, and at all times relevant to the facts recounted in this AWC was, the President and Registered Principal of Vertical Capital and, prior to July 2001, Security Capital.
  - d. Morris covered emerging growth companies as a research analyst at Vertical Capital.

- e. Among the research reports produced by Vertical Capital during Morris's tenures as a research analyst were reports concerning Tirex Corporation ("Tirex"), Asthma Disease Management, Inc. ("Asthma Disease"), and Neurotech Development Corporation ("Neurotech") (collectively, the "Reports"). The Tirex Report was issued on June 16, 1998. The Asthma Disease Report was issued on August 19, 1999. The Neurotech Report was issued on December 6, 2000.
- f. Morris was the primary author of the Reports, Respondent, as the firm's President, reviewed and approved each Report. As part of his review of the Neurotech Report, Respondent discussed the content of the Report with Morris and commented on the substance of the document prior to its release to Neurotech.
- g. Each of the Reports was delivered by Vertical Capital or Security Capital to the issuers. The issuers subsequently distributed the Reports to the investing public. The Neurotech Report was posted by Neurotech via hyperlink on Neurotech's website.
- h. Although the Neurotech Report did not contain a recommendation to buy, the Neurotech Report was optimistic about the financial prospects of Neurotech, in part based on the claim of Neurotech's management the Neurotech has secured lucrative contracts for the construction of health care facilities in Asia and South America. The Report stated that Neurotech's ability to reach the potential revenues and earnings was entirely dependent on the timely receipt of customers' deposits. Based on management's claims, the Report concluded that Neurotech had the "potential to reach a target price of \$6 in late 2004 or 2005." At the time of the Report, Neurotech shares were trading at approximately eleven cents per share. The claims by the Company that were recounted in the Report include the following:
  - i. That Neurotech, through its joint venture, had "just received its first deposits totaling \$16 million in financial instruments and assets from customers in China to begin \$77,000,000 in projects in that country."
  - ii. That Neurotech's joint venture had signed "\$675 million in new contracts in the last six months."

- iii. That Neurotech “Currently has contracts to construct hospitals ships, rail-side hospitals and nursing homes in China, Indonesia and Venezuela “totaling \$1,360,000,000 and
- iv. That Neurotech had “received a bank guarantee in the amount of \$100 million from its customers in Indonesia one year after the execution of a \$300,000,000 contract to build hospitals in that country,” and that although that guarantee had not been monetized, it would be re-issued “with a longer-term maturity date and better projected financial stability.”
- i. The Neurotech Report stated that validity of Neurotech’s foreign contracts would be established only by the receipt of deposits. The Neurotech Report continued:

**Financial Potential**

The Company [Neurotech] has approximately \$2,000,000,000 in contracts. If Neurotech ramps up to a level where it can complete its backlog in 5 years it will be running at a rate of almost \$5000,000,000 per year within three years. Management is currently negotiating for additional contracts with several countries. If successful on all of these its backlog would grow to over \$6,000,000,000 by 2004. At this level it would expect revenues in excess of \$1,500,000,000 per year by 2006.

- j. The Neurotech Report did not disclose, however, that in 1999, the SEC had disciplined Neurotech and its officers for misrepresenting to the investing public that Neurotech had obtained orders for hospitals and a guarantee from a Turkish bank, “when in fact there were neither orders nor guarantees.” See SEC Release No. 7926. The Neurotech Report referred to the SEC enforcement action by slating that “[p]otential investors should...satisfy themselves as the company’s legal proceedings and SEC matters. We understand from management that the latter is resolved and the former should not be a problem.”
- k. Morris and Respondent knew of the SEC cease and desist order, including the nature of the allegations, prior to the release of the Neurotech Report to Neurotech.

- l. The Neurotech Report omitted material facts and qualifications concerning Neurotech when it failed to describe the nature of the SEC disciplinary action against Neurotech. In the light of the context of the material presented, the omission of information describing the SEC disciplinary action caused the basis for accepting Neurotech's statements of potential income offered in the Report, and it contained Neurotech's exaggerated and unwarranted statements regarding its financial prospects.
- m. The Tirex Report, the Asthma Disease Report, and the Neurotech Report were prepared pursuant to financial advisory agreements with each issuer. Part of the work performed by Vertical Capital or Security Capital under the financial advisory agreements was preparation of the Tirex, Asthma Disease and Neurotech Reports. In all three instances, Morris, Respondent, and Security Capital received compensation from the issuers under the advisory agreements in the form of the issuers' restricted stock or warrants to purchase shares of the issuers' stock.
- n. At the time the Tirex Report was completed, Morris and Respondent each held 663,743 restricted shares of Tirex stock, and Security Capital held warrants to purchase up to 2,000,000 shares of Tirex stock over two years at favorable prices. These shares and warrants were received as compensation for Security Capital, Morris and Respondents services under the financial advisory agreement with Tirex. The Tirex Report disclosed that Security Capital and "several of its employees" had received compensation for their services under the financial advisory agreement in the form of warrants to purchases shares, but the Report did not disclose the amount of restricted stock Security Capital and its employees had received.
- o. At the time that the Asthma Disease Report was completed, Morris and Respondent each held 1,430,000 restricted shares of Asthma Disease common stock which were received as compensation for their services under the financial advisory agreement with Asthma Disease. The Asthma Disease Report disclosed that Security Capital and its employees held shares of Asthma Disease stock that were received as compensation, but the Report did not disclose the amount of restricted stock Security Capital and its employees had received.

- p. At the time that Neurotech Report was completed, Vertical Capital held 512,224 restricted shares of Neurotech stock that had been received from Neurotech as compensation for their services under the advisory agreement with Neurotech. Likewise, Morris held 512,820 shares of Neurotech stock that had been received from Neurotech as compensation for the preparation of the Report. The Neurotech Report disclosed that Vertical Capital and its employees had received compensation, but did not disclose the amount of restricted stock Vertical Capital and its employees had received.
  - q. During the time that the Tirex, Asthma Disease, and Neurotech Reports were researched and written, Vertical Capital and Respondent maintained written supervisory procedures that failed to address the standards and requirements that should be met in the preparation of a research report. None of the written procedures in place contain a description of the criteria used to evaluate research reports, apart from a general statement prohibiting exaggerated, promissory or false statements and a prohibition against "projections and predictions."
  - r. Vertical Capital, through Respondent, failed to adequately supervise the preparation of the Reports' disclosures regarding the amount of consideration received by the firm, Respondent and Morris from the issuers. In addition, Vertical Capital, through Respondent, did not adequately supervise Morris's preparation of the Neurotech Report. For example, although Respondent knew of the nature of the SEC action against Neurotech. Respondent failed to ensure that the SEC action and its resolution were adequately described in the text of the report.
  - s. By engaging in the course of conduct described above, Respondent violated NASD Conduct Rules 2110, 2210(d)(1)(A), 2210(d)(1)(B), and 2110 by violating Section 17(b) of the Securities Act of 1933. In addition, Respondent violated NASD Conduct Rules 3010(a), and 3010(b).
4. That Section 8.E (1)(j) of the Act provides, inter alia, that the registration of a salesperson may be revoked if the Secretary of State finds that such salesperson has been suspended by any self-regulatory organization registered under the Federal 1934 Act or the Federal 1974 Act arising from any fraudulent or deceptive act or a practice in violation of any rule, regulation or standard duly promulgated by the self-regulatory organization.

5. That the NASD is a self-regulatory organization as specified in Section 8.E (1)(j) of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged, without admitting or denying the averments, that the following shall be adopted as the Secretary of State's Conclusion of Law:

That by virtue of the foregoing, the Respondent's registration as a salesperson in the State of Illinois is subject to revocation pursuant to Section 8.E(1)(j) of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that he will not serve his dealer (Vertical Capital Partners, Inc.) in the capacity of Designated Principal for the offers or sale for securities in the State of Illinois for a period of Two (2) Years from the date of this Consent Order

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that he shall be levied costs incurred during the investigation of this matter in the amount of Two Thousand Five Hundred dollars (\$2,500.00). Said amount is has been paid by certified or cashier's check, made payable to the Office of the Secretary of State, Investors Education Fund.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that he has submitted with the Stipulation a certified or cashier's check in the amount of Two Thousand Five Hundred dollars (\$2,500 00) to cover costs incurred during the investigation of this matter. Said check has been made payable to the Office of the Secretary of State, Investors Education Fund.

WHEREAS, the Secretary of State, by and through his duly authorized representative, has determined that the matter related to the aforesaid formal hearing may be dismissed without further proceedings.

NOW THEREFORE IT SHALL BE AND IS HEREBY ORDERED THAT:

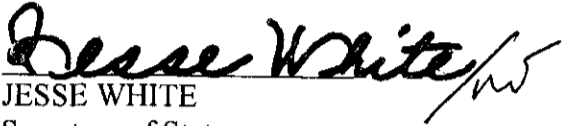
1. The corrected Amended Notice of Hearing dated May 23, 2006 is dismissed.
2. The Respondent, Ronald H. Heineman shall no longer serve his dealer ("Vertical Capital Partners, Inc.") in the capacity of Designated Principal for the offers or sale for securities in the State of Illinois., for a period of Two (2) Years from the entry of this Consent Order.

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3. The Respondent is levied costs of investigation in this matter in the amount of Two Thousand Five Hundred dollars (\$2,500.00), payable to the Office of the Secretary of State, Illinois Audit and Enforcement Fund, and on June 30, 2006 has submitted Two Thousand Five Hundred dollars (\$2,500.00) in payment thereof.
4. The formal hearing scheduled on this matter is hereby dismissed without further proceedings.

ENTERED This 11th day of July 2006.

  
JESSE WHITE  
Secretary of State  
State of Illinois