

**NASD
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 20050019195**

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REGISTRATION & DISCLOSURE

TO: Department of Enforcement
NASD

RE: Wells Fargo Securities, LLC, CRD 7665; and
Douglas van Dorsten, CRD 2416351

Pursuant to Rule 9216 of NASD Code of Procedure, Wells Fargo Securities, LLC, and Douglas van Dorsten (collectively, "Respondents") submit this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against Respondents alleging violations based on the same factual findings.

Respondents understand that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondents; and
3. If accepted:
 - a. this AWC will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by NASD or any other regulator against Respondents;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about Respondents' disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. None of Respondents may take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis.

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Nothing in this provision affects any of Respondents' testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

Respondents also understand that their experience in the securities industry and disciplinary histories may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

Wells Fargo Securities, LLC ("Wells Fargo Securities"), CRD 7665, has been an NASD member since September 9, 1986. The firm is headquartered in San Francisco and has 14 branch offices and approximately 89 registered representatives.

Douglas van Dorsten, CRD 2416351, was Director of Research at Wells Fargo Securities from August 2002 until August 2, 2005. Van Dorsten worked in Wells Fargo Securities' San Francisco home office. Van Dorsten first became registered with a member firm in 1993 and is licensed for general securities, as a general securities principal, and as a research analyst.

I.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against them;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondents specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

Respondents also specifically and voluntarily waive any right to claim that a person

violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

II.

ACCEPTANCE AND CONSENT

A. FINDINGS

Respondents hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

Summary

This matter concerns violations of NASD Rules 2711 and Rule 2210 by Wells Fargo Securities, LLC and its Director of Research, Douglas van Dorsten, in connection with the publication of a research report that did not disclose that the research analyst who authored the report had accepted a job with the company that was the subject of the report.

On April 28, 2005, Wells Fargo Securities published a research report concerning Cadence Design Systems, a San Jose, California company that designs semi-conductors for use in the global electronics market. The report was authored by a Wells Fargo research analyst ("Research Analyst") with the assistance of a junior research analyst. Citing Cadence's earnings, the report raised revenue estimates for Cadence for the second quarter of fiscal year 2005, and increased both revenue and price-per-share estimates for Cadence for fiscal years 2005 and 2006. The report did not disclose, however, that at the time Wells Fargo Securities issued the report, the Research Analyst had accepted a position at Cadence as Vice President of Investor Relations.

Nearly three weeks before Wells Fargo Securities published the April 28, 2005 Cadence research report, the firm learned that the Research Analyst had accepted a job at Cadence. During the week of April 11, 2005, the Research Analyst told her supervisor, Douglas van Dorsten, the Director of Research at Wells Fargo Securities, that she had accepted a job at Cadence. Others in senior management at Wells Fargo Securities also knew that the Research Analyst had accepted the job. Despite this notice within Wells Fargo Securities that the Research Analyst had accepted the job, however, Wells Fargo Securities published the April 28, 2005 Cadence research report without disclosing that the Research Analyst had accepted a job with the company. In fact, van Dorsten told the Research Analyst that she could continue to cover Cadence after she accepted the offer, and he approved the April 28, 2005 report without requiring that the report disclose that the Research Analyst had accepted a position with the company.

By failing to disclose that the Research Analyst had accepted a job at Cadence in the April 28 2005 research report, Wells Fargo Securities and van Dorsten violated Rules 2711 and 2210. The report failed to disclose that the Research Analyst had a financial interest in the securities of Cadence, in violation of Rule 2711(h)(1)(A), and failed to disclose the Research Analyst's actual, material conflict of interest as a result of having accepted the job with Cadence, in violation of Rule 2711(h)(1)(C). In addition, Wells Fargo Securities and van Dorsten also violated Rule 2210(d)(1)(A) by failing to disclose the Research Analyst's acceptance of a job with Cadence in the research report. The failure of the report to disclose this information was a material omission that rendered the report misleading, in violation of Rule 2210(d)(1)(A). By virtue of these violations, Wells Fargo Securities and van Dorsten also violated Rule 2110.

Wells Fargo Securities' Research Department

In 2005, Wells Fargo Securities' research analysts, assisted by research associates or junior research analysts, periodically wrote research reports covering a number of different companies. After writing the reports, the analysts and associates submitted the reports to Wells Fargo Securities' research editors. After an editor reviewed the reports for grammatical errors and formatting errors and approved them, Wells Fargo Securities disseminated them to its institutional sales force and to the public through various outlets, including wire services such as Bloomberg, Reuters, and First Call. Wells Fargo Securities generally followed this process for research reports, including the reports on Cadence, until August 2, 2005, when the firm discontinued its research operations. The firm currently has no research department and provides no research services.

Cadence Hires the Research Analyst to Head its Investor Relations Department

In November 2004, Cadence began to search for an individual to head its Investor Relations Department. To assist in its search, Cadence hired an executive placement agency. Among the candidates considered by Cadence was the Research Analyst at Wells Fargo Securities, who had covered Cadence since 2000.

In January 2005, the Research Analyst applied for the job at Cadence. She subsequently interviewed for the position with Cadence's management on February 11 and 16, 2005. On or about March 17, 2005, the Research Analyst was offered a position with the company. After researching and negotiating the terms of the offer, on April 9, 2005, the Research Analyst agreed to accept a position at Cadence as Corporate Vice President for Investor Relations. The position provided the Research Analyst with the following compensation:

- an annual base salary of \$250,000;
- an incentive bonus targeted at 30% of the Research Analyst's base salary under Cadence's "Key Contributor Incentive Plan";
- a hiring bonus of \$50,000, with \$25,000 to be paid in the Research Analyst's first paycheck and the remaining \$25,000 to be paid on April 1, 2006;

- an option to purchase 75,000 shares of Cadence common stock, 25% of which would vest at the end of the Research Analyst's first year of employment, with the remainder vesting at the end of four years;
- a grant of 15,000 shares of incentive stock, subject to approval by the Board of Directors Compensation Committee, of which 25% would vest on the anniversary of the grant date and on each anniversary date thereafter, for four years;
- \$15,000 in assistance for the Research Analyst to relocate from Portland to San Jose; and
- a five-year, interest-free mortgage loan of up to \$1 million to assist the Research Analyst with the purchase of a new home in the San Jose area.

Jordan did not disclose the terms of her offer to anyone at Wells Fargo Securities.

Management at Wells Fargo Securities Learns That the Research Analyst Accepted a Job at Cadence

Within a few days of accepting the offer from Cadence, the Research Analyst called van Dorsten and told him that she decided to accept a job at Cadence. In addition to being the Research Analyst's supervisor, van Dorsten was Wells Fargo Securities' Director of Research and was responsible for supervising the entire Research Department. Van Dorsten was also designated in the Wells Fargo Securities Compliance Manual as the individual responsible for ensuring that all appropriate disclosures, including disclosures about conflicts of interest, were made in research reports.

Van Dorsten did not ask the Research Analyst about the terms of her compensation or whether she would receive stock or stock options in connection with the job. Instead, van Dorsten told the Research Analyst to continue to cover Cadence through the earnings season, the weeks in April when companies reported their earnings for the first quarter.

In addition to van Dorsten, others in senior management at Wells Fargo Securities also knew that the Research Analyst had accepted a position with Cadence. Shortly after the Research Analyst told him that she had been offered a job by Cadence, van Dorsten announced at a weekly staff meeting, with the President, Chief Compliance Officer, and other senior staff of Wells Fargo Securities in attendance, that the Research Analyst had been offered a job by Cadence, although there was no discussion at the meeting about whether the Research Analyst would continue to cover Cadence. The Research Analyst also sent the President of Wells Fargo Securities a letter, dated April 15, 2005, telling him that she had accepted the position of Vice President of Investor Relations with Cadence. Van Dorsten was copied on the letter.

The Research Analyst Continues to Cover Cadence and Wells Fargo Issues the April 28, 2005 Cadence Research Report

Van Dorsten allowed the Research Analyst to continue to cover Cadence for Wells Fargo Securities even though he knew that she had accepted a job to become an executive at Cadence. On April 27, 2005, with van Dorsten's knowledge, the Research Analyst participated in a conference call conducted by Cadence with research analysts and asked Cadence's management a question about the company's outlook for the future. Neither the Research Analyst nor Cadence said anything during the call to indicate that she had already accepted a job at Cadence.

On the next day, April 28, 2005, Wells Fargo Securities issued a research report on Cadence written by the Research Analyst. The junior research analyst also participated in the drafting of the report. The Research Analyst's name appeared as the lead analyst on the report. Van Dorsten approved the research report and did not require the report to disclose that the Research Analyst had accepted a job at Cadence as Vice President for Investor Relations.

The April 28, 2005 Cadence report was headlined, "Pricing Strategies and Product Momentum Working; Reiterating Buy." The report cited Cadence's earnings and raised revenue estimates for Cadence for the second quarter of fiscal year 2005 from \$303 million to \$308 million, increased revenue estimates for fiscal year 2005 from \$1.275 billion to \$1.285 billion, and raised earnings-per-share estimates from \$0.77 per share to \$0.78 per share. The report also raised revenue estimates for Cadence for fiscal year 2006 from \$1.36 billion to \$1.37 billion and earnings-per-share estimates from \$0.89 per share to \$0.90 per share. The report left unchanged the price target and "buy" recommendation for Cadence from the two prior Cadence reports authored by the Research Analyst. There was no disclosure in the April 28, 2005 report that the Research Analyst had accepted a position as a Corporate Vice President at Cadence.

On April 28, 2005, later in the same morning that Wells Fargo Securities issued the Cadence research report, the Research Analyst flew to San Jose to attend a management meeting at Cadence's offices. The Research Analyst participated in the meeting as a future Cadence employee. Van Dorsten knew that the Research Analyst was attending the meeting on the same morning that the April 28, 2005 Cadence research report, authored by the Research Analyst, was issued by Wells Fargo Securities.

The Research Analyst's last day at Wells Fargo Securities was May 6, 2005. On May 9, 2005, she started work at Cadence.

Wells Fargo Securities and van Dorsten Violated Rule 2711(h)(1)(A) & (C) and Rule 2210(d)(1)(A)

The Firm and van Dorsten Knew that the Research Analyst Accepted a Job with Cadence

Wells Fargo Securities and van Dorsten knew that the Research Analyst had accepted a job with Cadence weeks before the April 28, 2005 report was published. In early April, the Research Analyst told van Dorsten that she had accepted a job at Cadence. At a weekly staff meeting in early April attended by a number of members of senior management of Wells Fargo Securities, van Dorsten announced that the Research Analyst had been offered a job by Cadence. Moreover, in a letter dated April 15, 2005, the Research Analyst also separately informed Wells Fargo Securities' President that she

accepted a job at Cadence. Despite this notice at Wells Fargo Securities, however, no disclosure was made in the April 28, 2005 Cadence research report that the Research Analyst had accepted a job with the company. In fact, van Dorsten approved the issuance of the April 28, 2005 report without requiring any disclosure that the Research Analyst had accepted a position with Cadence.

Rule 2711

Rule 2711 sets forth several restrictions and disclosure requirements that pertain to research analysts and research reports. The rule was intended to “restore investor confidence in a process that is critical to the equities markets” and “improve the objectivity of research and provide investors with more useful and reliable information when making investment decisions.”¹

Subsection (h)(1) of Rule 2711 requires members and research analysts to disclose material conflicts of interest in research reports. In subsection (h)(1)(A), the rule requires a member to disclose “if the research analyst . . . has a financial interest in the securities of the subject company, and the nature of the financial interest (including, without limitation, whether it consists of any option, right, warrant, future, long or short position)[.]” Subsection (h)(1)(C) requires disclosure of “any other actual, material conflict of interest of the research analyst or member of which the research analyst knows or has reason to know at the time of the publication of the research report . . .”

By accepting a job at Cadence, the Research Analyst had both a financial and an actual, material conflict of interest that should have been disclosed pursuant to Rule 2711(h)(1)(A) and (C) in the April 28, 2005 research report on Cadence issued by Wells Fargo Securities. That report, which was ostensibly an independent analysis of Cadence by an impartial observer, was in fact authored by someone who had accepted a job as a Corporate Vice President of Cadence and was due to receive significant compensation from Cadence in that position. By failing to disclose this financial interest and actual, material conflict of interest in the April 28, 2005 report, Wells Fargo Securities and van Dorsten violated Rule 2711(h)(1)(A) and (C).

The Research Analyst had a financial interest in the securities of Cadence when Wells Fargo Securities published the April 28, 2005 report. The Research Analyst had signed an agreement with Cadence that provided her, upon approval by Cadence’s Board of Directors, 15,000 shares of Cadence stock and an option to purchase an additional 75,000 shares of Cadence. As a result, Rule 2711(h)(1)(A) required that this information be disclosed in the April 28, 2005 research report. The failure of the report to disclose that information violated that rule.

In addition, the Research Analyst had an actual, material conflict of interest when Wells Fargo Securities published the April 28, 2005 report. She had accepted a position with the company as its Vice President of Investor relations, and yet appeared on the April 28, 2005 research report as an independent analyst covering the company for Wells Fargo Securities. Rule 2711(h)(1)(C) required that the report disclose this conflict of interest.

¹ Notice to Members 02-39.

Rule 2210

Disclosures in research reports are also governed by Rule 2210(d)(1)(A). That rule provides that:

all member communications with the public shall be based on principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry, or service. No member may omit any material fact or qualification if the omission, in light of the context of the material presented, would cause the communication to be misleading.

By failing to disclose in the April 28, 2005 Cadence research report that the Research Analyst had accepted a job at Cadence, Wells Fargo Securities and van Dorsten omitted a material fact that caused the report to be misleading, in violation of Rule 2210(d)(1)(A). The April 28, 2005 report was not an independent analysis of Cadence by an impartial observer, as it appeared to be, but instead had been written by an individual who had accepted a job as a Corporate Vice President of the company discussed in the report. In addition, the failure of the April 28, 2005 research report to disclose that the Research Analyst had a financial interest in the securities of Cadence was also a material omission that rendered the report misleading, in violation of Rule 2210(d)(1)(A).

B. SANCTIONS

Wells Fargo Securities, LLC consents to the imposition, at a maximum, of the following sanctions:

1. A censure; and
2. A fine of \$250,000.

Douglas van Dorsten consents to the imposition, at a maximum, of the following sanctions:

1. A fine of \$40,000;
2. A 60-day suspension in a principal capacity; and
3. An undertaking to cooperate with NASD Department of Enforcement in any further investigation and hearing relating to this matter, including, but not limited to, meeting with and being interviewed by NASD Department of Enforcement, and testifying at any hearing, without the need for any request pursuant to Rule 8210.

III.

OTHER MATTERS

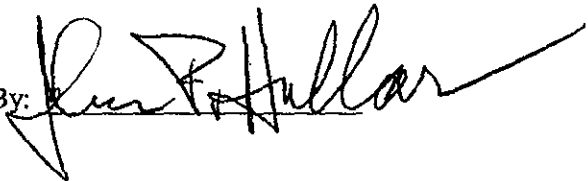
- A. Respondents understand that they may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.
- B. Respondents agree to pay any monetary sanctions imposed on them upon notice that this AWC has been accepted and that such payments are due and payable. Each of Respondents has attached an Election of Payment form showing the method by which it or he proposes to pay any fine imposed.
- C. Each of Respondents specifically and voluntarily waives any right to claim that it or he is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Respondents each certify that they have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce them to submit it.

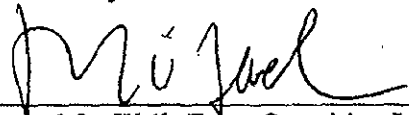
Date

Wells Fargo Securities, LLC.

Respondent

By: 

Reviewed by:


Counsel for Wells Fargo Securities, LLC.

✓ Date

Douglas van Dorsten.
Respondent

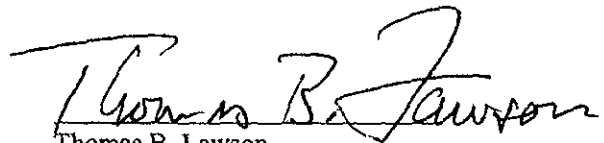
A handwritten signature in black ink, appearing to read "Douglas van Dorsten", written over a horizontal line.

Reviewed by:

Counsel for Douglas van Dorsten

Accepted by NASD:

May 17, 2007
Date


Thomas B. Lawson

Chief Counsel

NASD Department of Enforcement

1801 K Street, N.W., 8th Floor

Washington, DC 20006

Signed on behalf of the Director of
ODA, by delegated authority