



Mid-Quarter Newsletter

August 15, 2010

From My Corner

Jeff Mengis – President

Changes are coming to the way cost basis information is collected, maintained and reported by custodians. While **no action is required on your part to comply with these changes**, we wanted to use this area of the newsletter to keep you informed of the new regulations. Starting in 2011, cost basis record keeping and tax reporting will become the responsibility of custodians like Charles Schwab. The requirements will be phased in over three years, starting with equities acquired on or after January 1, 2011, followed by Mutual Funds and ETFs purchased on or after January 1, 2012, and finally fixed income and options securities acquired on or after January 1, 2013. It's important to note that we will continue to help clients maintain their cost basis information on securities purchased prior to their respective phase-in date. Fortunately, our firm's software is well prepared to handle the changes to the reporting of cost basis information. In fact, we have been complimented on numerous occasions by clients and accountants for the layout of our tax reports. Many of you won't notice a change resulting from these regulations until 2012 when the first 1099-B forms containing cost basis information are sent out. In the long run, these changes will help us continue to manage your portfolios in a tax-efficient manner, and make tax preparation easier and more accurate.

Going forward, when reporting cost basis information, Charles Schwab will use first in first out (FIFO). For most clients, that is the best reporting method to use and no action is required. In certain circumstances, the legislation will allow investors to specify a tax lot to sell at the time of the trade, which is useful in gifting, charitable donations or low cost basis sales. As always, we will be here to help you navigate those situations when needed. Over the coming months, Schwab may send more information your way on this cost basis legislation. If you have any questions, please do not hesitate to contact us.

In the meantime, I hope you have had a good summer to date and are able to enjoy the warm weather while it lasts.

Investment Focus:

TriQuint Semiconductor We recently initiated a position in Triquint Semiconductors, which is a company headquartered in Hillsboro, OR that makes a variety of integrated circuits for use in mobile devices, networks and aerospace. About two-thirds of Triquint's revenues currently come from chips for smartphones. As smartphone use grows, sales are forecast to grow 28% annually over the next 4 years. The company generates around \$6-8 in revenue from every smartphone it supplies vs. \$0.90-1.50 from every voice-only mobile phone. In addition to the high margin smartphone business, Triquint's sales are diversified into networks and defense/aerospace. We expect Triquint's network business to become a more significant portion of their sales, given the need for infrastructure growth in emerging markets and the company's advantages in this sector.

As a small technology company, we view Triquint as a speculative position. However, given industry trends and its position in the product cycle, we think Triquint is undervalued. The company currently trades at about 9X consensus 2011 earnings in spite of forecast earnings growth of 15% over the next year. With \$175 million in cash and no debt, Triquint has a strong balance sheet to weather fiscal storms. The risks that may pressure the stock price include macroeconomic fears leading to reduced sales. In addition, increased competition in the smartphone chip market could lead to lower margins. However, the company offers some diversification through network and aerospace products. We believe some of the macroeconomic and competitive concerns are priced into the stock. As a small cap company, we anticipate higher volatility, but believe the company offers the potential for growth at a reasonable price.

TriQuint Semiconductor, Inc.

