



## Focused Taxable Composite

QUARTERLY PROFILE  
3<sup>rd</sup> QUARTER 2006

### Investment Strategy and Goal

The *Focused Taxable Composite* seeks long term capital appreciation by investing in companies which, in MCM's judgment, offer value relative to their long term potential and the market as a whole. Using a multi-cap approach, the composite is able to invest in companies of all sizes, although most companies have market capitalization in excess of \$500 million. Our overall goal is to consistently outperform the S&P 500 index.

### Investment Philosophy

- **Flexibility to pursue relative value wherever it is identified** – With a multi-cap approach, opportunities don't have to be overlooked due to market-cap restrictions and companies don't have to be sold simply because they have grown too large.
- **Portfolio management** – Our bottom-up approach allows us to build portfolios one company at a time, with a primary focus on identifying reasonably valued companies that offer strong quantitative and qualitative characteristics. With this approach, sector weights are determined by the underlying relative value of the companies within each sector.
- **Relative value approach** – We constantly review our current holdings against opportunities in the broader market. This approach often leads to a balance between growth and value companies, depending on market valuations.

### Period Performance

	<i>Year to date</i>	<i>3 Year</i>	<i>5 Year</i>	<i>Since Inception</i> <i>10/1/98</i>
<b>Focused Taxable Composite</b>	6.99%	15.42%	7.33%	11.51%
S&P 500 Index	8.56%	12.28%	6.96%	5.07%

\*Past performance does not guarantee future results. Numbers are net of fees. 3 year, 5 year, and inception percentages are annualized figures.

### Composite Highlights

A slowing US economy during the quarter prompted a market rotation away from economically sensitive companies to more defensive names. While we have increased our exposure to certain health care names that provide defensive characteristics, we still see opportunity in a number of our long term energy and industrial holdings. We believe that the cycle in these sectors will be stronger for longer than most strategists expect.

➤ We initiated a position in **El Paso Corporation**. We are encouraged by strength in the company's natural gas pipeline business as well as its gas exploration and production business. This turnaround story appears to be on track as the company continues to sell non-performing assets and reduce annual expenses while recruiting new leadership for its oil and gas businesses.

➤ Another addition during the quarter was **Barr Pharmaceutical**. This specialty pharmaceutical company is engaged in the development of both generic (75% sales) and branded (25% sales) drugs. The company hopes to accelerate its already above average growth rate by opening international markets with the acquisition of the the Croatian generics pharmaceutical firm Piva. We were drawn to the stock by the attractive valuation as the company expects to continue to deliver a double digit growth rate and only trades at 15x earnings.

➤ Additional purchases of **Stryker Corporation** were made. This medical device maker has recently experienced strong performance from its orthopedics division, giving investors renewed confidence that the company will continue to deliver 20% earnings growth for the near term.

➤ We took profits in **Global Industries** during the quarter. While we believe that the industry cycle will be extended, the company expressed some concerns about the strength of its backlog during their quarterly conference call. This news was announced as the stock was nearing our target price, prompting us to significantly reduce the position.

**Annual Returns**

Year	MCM Focused Taxable Composite	S&P 500
2005	8.49%	4.88%
2004	16.51%	10.88%
2003	28.79%	28.69%
2002	(25.44%)	(22.10%)
2001	(11.16%)	(11.88%)
2000	33.49%	(9.11%)
1999	22.35%	21.04%
1998*	27.01%	21.30%

\* Represents non-annualized year-to-date performance for the period 10/1/98 – 12/31/98.

**Top Ten Holdings**

GOLDMAN SACHS	4.7%
GENERAL ELECTRIC	4.6%
COSTCO	4.6%
ORACLE	4.2%
AMGEN	4.2%
DISNEY	4.0%
JOHNSON & JOHNSON	3.9%
IBM	3.9%
INTERNATIONAL GAME TEC	3.7%
NORFOLK SOUTHERN	3.5%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of September 30, 2006, cash represented 1.2% of the total composite. This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page.

**Sector Weights**

Sector	Focused Taxable Composite	S&P 500	+ / -
Consumer Discretionary	17.1%	10.1%	+7.0%
Consumer Staples	1.8%	9.6%	-7.8%
Energy	13.3%	9.3%	+4.0%
Financials	17.2%	22.3%	-5.1%
Health Care	15.0%	12.7%	+2.3%
Industrials	13.5%	10.9%	+2.6%
Information Technology	18.5%	15.3%	+3.2%
Materials	2.4%	2.9%	-0.5%
Telecommunications	0.0%	3.5%	-3.5%
Utilities	0.0%	3.4%	-3.4%
Cash	1.2%	0.0%	+1.2%

**Market Cap Segmentation (excludes cash)**

Small (< 1.5 Billion)	0.42%
Mid (1.5 Billion – 10 Billion)	17.61%
Large (> 10 Billion)	81.97%

Mengis Capital Management, Inc., has prepared and presented performance returns in accordance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS®), the U.S. and Canadian version of the Global Investment Performance Standards (GIPS®). AIMR has not been involved with the preparation or review of this report. Mengis Capital Management, Inc. is a registered investment advisor. Performance prior to November 28, 2001, occurred while the portfolio manager was employed at a prior firm. Compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS) was verified at the prior firm, beginning February 1, 1998. As represented by management, the performance from the predecessor firm conforms to the AIMR-PPS with regard to portability of investment results. The firm maintains a complete list and description of composites, which is available upon request. Focused Taxable Equity Composite contains fully discretionary taxable equity accounts and for comparison purposes is measured against the S&P 500 Index. Sector weightings observed in the Focused Taxable accounts vary significantly from those in the S&P 500 Index. In addition, from time to time, the Focused Taxable accounts will generally have 20-30 holdings as compared to the S&P 500 Index (composed of 500 different stocks). For certain time periods, the composite may be more concentrated than the benchmark. Due to the limited number of holdings relative to this index, the investment risks associated with concentration are significantly greater for the Focused Taxable accounts than it is for the index used for comparison. The minimum account size for the Focused Taxable Equity Composite is \$150,000. Results are based on a portion of fully discretionary accounts under management, including those accounts no longer with the firm. At present, there are 14 accounts being managed consistent with the discipline referred to as "Focused Taxable". Jeff Mengis manages over 50 other portfolios on a discretionary basis. These portfolios are not managed according to the Focused Taxable methodology and the results in these accounts will vary, both positively and negatively, from those experienced by the Focused Taxable accounts. Information regarding the performance achieved in these accounts is available upon request. No non-fee-paying accounts are included in this composite. Past performance is not indicative of future results. Investments are subject to market fluctuations and investors could lose some or all funds invested. The U. S. dollar is the currency used to express performance. Beginning January 1, 2002, returns are presented gross and net of management fees and include the reinvestment of all income. A fee schedule is available upon request and is described in Part II of the firm's ADV. Gross returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Prior to January 1, 2002, gross returns are stated gross of all fees and have not been reduced by transaction costs; net returns are reduced by all actual fees incurred. Fee schedules for the individual wrap agreements are available from the associated wrap sponsor. There has been no material change in personnel responsible for the investment management of this composite. Balanced portfolio segments are not included in this composite. Leverage is not used in the composite. The Focused Taxable Equity Composite was created October 1, 1998.

	Total Firm Assets (thousands)	Composite Assets		Accounts at Year End	Asset-Weighted Annual Return		S&P 500	Annual Composite Dispersion
		US Dollars (thousands)	% of Firm Assets		Gross	Net		
2005	89,242	15,206	18%	12	9.55%	8.49%	4.88%	1.1%
2004	85,368	11,016	13%	9	17.70%	16.51%	10.88%	1.2%
2003	86,803	8,414	10%	13	30.04%	28.79%	28.69%	1.1%
2002	61,896	4,072	7%	10	(24.82%)	(25.44%)	(22.10%)	2.2%
2001*	45,728	1,848	4%	8	(9.74%)	(11.16%)	(11.88%)	4.4%
2000*		1,404	2%	6	35.90%	33.49%	(9.11%)	N.A.
1999*		481	1%	5 or fewer	25.13%	22.35%	21.04%	N.A.
1998*		137	<1%	5 or fewer				

- N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

- \*Information presented pertains to portfolios managed by the portfolio manager while affiliated with a prior firm. Their presentation conforms to AIMR-PPS guidelines regarding the portability of investment results.

- S&P 500 Index performance returns reflect gross dividends reinvested into index. S&P Index performance returns through September 30, 2001, were obtained from Bloomberg; index performance returns for periods after September 30, 2001, were calculated using data from FT Interactive Data.

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