



## Focused Taxable Composite

QUARTERLY PROFILE  
2<sup>nd</sup> QUARTER 2007

### 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><br><i>10/198</i> |
|----------------------------------|---------------------|---------------|---------------|---|
| <b>Focused Taxable Composite</b> | 6.32%               | 12.99%        | 11.33%        | 12.02%                                  |
| S&P 500 Index                    | 6.96%               | 11.68%        | 10.71%        | 6.24%                                   |

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

### Composite Highlights

#### *INITIATED POSITIONS:*

➤ **Global Industries:** is an oil and gas services company that provides construction and support to offshore wells in the Gulf of Mexico and around the world. The stock is currently trading at 10X 2007 expected earnings. We see a stock with a low valuation and the potential for a significant catalyst with the hurricane season around the corner.

#### *INCREASED POSITIONS:*

➤ We allocated capital to a number of our current holdings. Most notably were sizable increases in **Qualcomm** and **Starbucks**. Other purchases were made in Intel, Cisco, International Game Tech, Johnson and Johnson and Sprint.

#### *ELIMINATED POSITIONS:*

➤ **Devon Industries:** Although we like the long-term prospects for this independent energy company, we felt compelled to take profits as the stock reached new highs. Our reasons for selling centered around a rising valuation in the face of falling natural gas prices (note: 2/3 of Devon's production came from natural gas in 2006). We would not hesitate to re-establish a position in Devon if the stock price falls. We eliminated a relatively small position of **Citadel Broadcasting Company**, which was a spin-off from Disney. **Level 3 Communications** was sold after the company announced a wider than expected loss for the quarter.

#### *ADDITIONAL ACTIVITY:*

➤ We took long-term profits from **Honda Motors**, **IBM**, **Microsoft** and **Precision Castparts**. Additionally, we took some short-term profits in National Oil Well.



## Top Ten Holdings

|                        |      |
|------------------------|------|
| Intel                  | 5.3% |
| Cisco                  | 4.7% |
| National Oilwell Varco | 4.7% |
| Costco                 | 4.6% |
| General Electric       | 4.4% |
| Sprint Nextel          | 4.2% |
| Goldman Sachs          | 4.2% |
| Qualcomm Inc           | 4.1% |
| BP PLC                 | 4.0% |
| Johnson & Johnson      | 3.6% |

## Market Cap Segmentation (excludes cash)

|                                |        |
|--------------------------------|--------|
| Small (< 1.5 Billion)          | 0.20%  |
| Mid (1.5 Billion – 10 Billion) | 1.36%  |
| Large (> 10 Billion)           | 98.43% |

## Sector Weights

| Sector                 | Focused Taxable Composite | S&P 500 | + / - |
|------------------------|---------------------------|---------|-------|
| Consumer Discretionary | 14.4%                     | 10.2%   | +4.2% |
| Consumer Staples       | 1.1%                      | 9.3%    | -8.2% |
| Energy                 | 18.5%                     | 10.8%   | +7.7% |
| Financials             | 11.0%                     | 20.8%   | -9.8% |
| Health Care            | 12.5%                     | 11.7%   | +0.8% |
| Industrials            | 10.1%                     | 11.4%   | -1.3% |
| Information Technology | 23.1%                     | 15.5%   | +7.6% |
| Materials              | 2.2%                      | 3.1%    | -0.9% |
| Telecommunications     | 4.2%                      | 3.8%    | +0.4% |
| Utilities              | 0.0%                      | 3.5%    | -3.5% |
| Cash                   | 2.9%                      | 0.0%    | +2.9% |

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of June 30, 2007, cash represented 2.9% of the total composite. This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page.

Mengis Capital Management, Inc., has prepared and presented this report in compliance with the Global Investment Performance Standards (GIPS®). Mengis Capital Management, Inc. is a registered investment advisor. The firm maintains a complete list and description of composites, which is available upon request. Performance prior to November 28, 2001 occurred while the portfolio manager was employed at a prior firm and was the only individual responsible for selecting the securities to buy and sell. Compliance with the Association for Investment Management and Research Performance Presentation Standards (AIMR-PPS®, the predecessor to GIPS) was verified at the prior firm, beginning February 1, 1998. As represented by management, the performance from the predecessor firm conforms to the GIPS guidelines with regard to portability of investment results. 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 \$50,000. Results are based on 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." Mengis Capital Management, Inc. currently 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. The U. S. dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Net of fee performance was calculated using actual management fees. Beginning January 1, 2002, gross returns are reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Prior to January 1, 2002, accounts in the composite were charged an all inclusive wrap fee. Pure gross returns for this period are shown as supplemental information and are stated gross of all fees and transaction costs; net returns are reduced by all actual fees incurred. The standard management fee is a maximum of 2.00% on all assets. Additional information regarding policies for calculating and reporting returns is available upon request. There has been no material change in personnel responsible for the investment management of this composite. The Focused Taxable Equity Composite was created October 1, 1998. Past performance is not indicative of future results. Investments are subject to market fluctuations and investors could lose some or all funds invested.

|       | 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      |          |                             |
| 2006  | 97,596                        | 15,637                 | 16%              | 16                   | 14.66%                       | 13.50%   | 15.80%   | 1.1%                        |
| 2005  | 89,242                        | 15,206                 | 17%              | 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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