



Mid-Quarter Newsletter

February 5, 2008

From My Corner

Jeff Mengis - President

Market Comments: With the markets remaining volatile and the media claiming that the 'sky is falling', I thought it might be a good time to discuss potential opportunities that are surfacing in the stock market. As the economy trends toward recession, the market has adjusted accordingly. The Fed responded with a 75 bp rate cut in an emergency session on January 22nd, and another 50 bp rate cut on January 30th to bring the Fed funds rate to 3.0%. The yield on many money markets and fixed income investments are sure to follow the fed lower.

While fixed-income rates have declined, the yield on stocks have been increasing as their prices have fallen. So we put together a list of 10 large-cap, higher-yielding, household companies across a variety of sectors that look attractive:

Company	Price	Investment	Yield	Ann. Div	% Off 52-Wk Hi
BP	\$63.48	\$ 20,000	4.1%	\$ 816.00	-20.4%
B of A	\$42.37	\$ 20,000	6.0%	\$ 1,200.00	-21.8%
JP Morgan	\$43.89	\$ 20,000	3.5%	\$ 700.00	-17.6%
GE	\$34.21	\$ 20,000	3.6%	\$ 720.00	-18.8%
Dupont	\$44.61	\$ 20,000	3.7%	\$ 740.00	-17.2%
Bristol Myer	\$23.43	\$ 20,000	5.3%	\$ 1,060.00	-27.6%
Pfizer	\$22.96	\$ 20,000	5.6%	\$ 1,120.00	-17.2%
Intel	\$20.12	\$ 20,000	2.5%	\$ 500.00	-28.1%
At&t	\$36.73	\$ 20,000	4.4%	\$ 880.00	-14.5%
Verizon	\$36.83	\$ 20,000	4.7%	\$ 940.00	-20.4%
As of 02/05/08		\$ 200,000	4.33%	\$ 8,660.00	-20.4%

If you are willing to ride out some near-term bumps and are looking for stocks that offer an average yield of 4.33% with upside potential over the long-term, this may be a good strategy for you. Under the current tax code, dividends are taxed at a lower 15% rate than would interest from a bond or savings account assuming you are in the highest federal tax bracket (35%). On average, these stocks are down about 20.4% from their 52-week high, and there will likely be more adjustments along the way. Still, we feel that if you can accept some volatility and risk, these are solid companies that offer generous dividends and an opportunity for growth.

If you'd like to talk more about this strategy, or just want to discuss your portfolio, please give us a call. We'd love to hear from you. In the meantime, I hope all is well with you and your family.

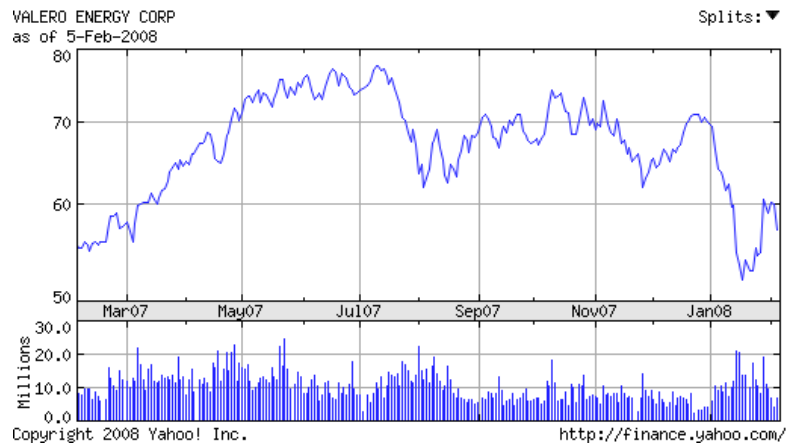
Investment Focus:



If you've taken a trip to the gas pump lately, you have probably felt the pain of \$3+ per gallon gasoline. Yet most Americans have grown accustomed to expensive gas and even seem to accept it now. We believe that the public's acceptance of expensive gasoline will give pricing power to refining companies like **Valero** that buy various types of oil and refine it into gasoline.

In spite of high gas prices, the last six months have been difficult for refiners like Valero. While refiners have been forced to pay more for record high oil, they have also faced pricing resistance from end consumers of gasoline, which has narrowed margins in the industry. However, Valero is one of the few refiners in the industry that is able to refine cheaper sour crude oil as well as light sweet crude oil, creating wider margins.

The refining industry is historically cyclical with most profit coming during the summer driving season. There is some concern that if the country goes into a recession, the use of gasoline would decline. But if that were to occur, the price of oil would likely decrease as well. The market is also worried about increased competition among the refiners, but analysts at Goldman Sachs think that fear is overblown. In their opinion the Middle East will cease exporting refined gas and become net importers as their demand increases. We believe that Valero is trading at an attractive valuation - and the company seems to agree - as Valero recently bought back 20% of its shares. Ultimately, we feel that the world's thirst for gas will not ease any time soon, and Valero is a good company poised to profit from that continued demand.





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.

This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page

Top 10 Holdings (as of 12/31/07)

Intel	5.8%
Costco	5.5%
National Oilwell Varco	5.4%
General Electric	4.6%
Cisco Systems	4.6%
International Game Tec.	4.4%
Qualcomm	4.1%
BP	3.9%
Goldman Sachs	3.6%
Amgen	3.4%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of December 31, 2007 cash represented 1.7% of the total composite. This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page.

Performance

	1 Year**	3 Year**	5 Year**	Since Inception** 10/1/98
Focused Taxable Composite	7.20%	9.69%	14.65%	11.43%
S&P 500 Index	5.49%	8.62%	12.83%	5.73%

* Past performance does not guarantee future results. Numbers are net of fees.

** Annualized performance figures

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. For periods shown prior to January 1, 2006, the minimum account size for this composite is \$50 thousand. Effective January 1, 2006, the minimum account size has been changed to \$150 thousand. Results are based on fully discretionary accounts under management, including those accounts no longer with the firm. At present, there are 13 accounts being managed consistent with the discipline referred to as "Focused Taxable." Mengis Capital Management, Inc. currently manages over 200 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. 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		
2007	123,100	17,970	15%	14	8.29%	7.20%	5.49%	2.5%
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 (the predecessor to GIPS) 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.