



## Focused Taxable Composite

QUARTERLY PROFILE  
4<sup>th</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

|                           | 1 Year | 3 Year | 5 Year | Since Inception<br>10/198 |
|---------------------------|--------|--------|--------|---------------------------|
| Focused Taxable Composite | 13.50% | 12.78% | 6.62%  | 11.95%                    |
| S&P 500 Index             | 15.80% | 10.44% | 6.17%  | 5.74%                     |

\*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:

- **Devon Energy:** an independent energy company engaged in oil/gas exploration and production. Nearly two thirds of Devon's production is natural gas and 85% of total production is in North America. The company recently announced a significant new oil discovery in the Gulf of Mexico. While this will not impact current production levels, it enhances the long term value of the company.
- **Genentech:** a biotechnology leader that continues to deliver explosive earnings growth driven by the success of the company's cancer drugs. The recent approval of Avastin as a non-small cell lung cancer drug should help sustain rapid earnings growth. We see a reasonable valuation as the company is expected to increase earnings at better than 25% and trades at roughly 30 times earnings.

#### ELIMINATED POSITIONS:

- **Cypress Semiconductor** was sold after the stock reached our target price. Slowing asset growth at **Janus Capital** threatened this turn around story and prompted us to take profits. **New York Community Bank** was eliminated primarily because we identified other opportunities within the financial sector that provided less risk. Finally, we sold our position in **Norfolk Southern** as the company lowered guidance for 2007 due to concerns of slowing housing and auto sales.

#### ADDITIONAL ACTIVITY:

- We trimmed the majority of our position in **YM Biosciences** as complications developed during third stage trials of their cancer drug.
- Additional purchases were made to a number of our current holdings, including **Barr Pharmaceuticals, Citigroup, El Paso, Intel, and IBM.**



## Top Ten Holdings

|                               |      |
|-------------------------------|------|
| Goldman Sachs                 | 5.2% |
| IBM                           | 5.2% |
| General Electric              | 4.7% |
| Costco                        | 4.6% |
| Devon Energy                  | 4.0% |
| Disney                        | 3.9% |
| International Game Technology | 3.9% |
| Amgen                         | 3.8% |
| Honda Motor                   | 3.8% |
| Oracle                        | 3.8% |

## Market Cap Segmentation (excludes cash)

|                                |        |
|--------------------------------|--------|
| Small (< 1.5 Billion)          | 0.82%  |
| Mid (1.5 Billion – 10 Billion) | 6.05%  |
| Large (> 10 Billion)           | 92.68% |

## Sector Weights

| Sector                 | Focused Taxable Composite | S&P 500 | + / - |
|------------------------|---------------------------|---------|-------|
| Consumer Discretionary | 17.6%                     | 10.6%   | +7.0% |
| Consumer Staples       | 1.7%                      | 9.3%    | -7.6% |
| Energy                 | 16.0%                     | 9.8%    | +6.2% |
| Financials             | 13.0%                     | 22.3%   | -9.3% |
| Health Care            | 17.9%                     | 12.0%   | +5.9% |
| Industrials            | 10.7%                     | 10.8%   | -0.1% |
| Information Technology | 18.4%                     | 15.1%   | +3.3% |
| Materials              | 2.7%                      | 3.0%    | -0.3% |
| Telecommunications     | 1.0%                      | 3.5%    | -2.5% |
| Utilities              | 0.0%                      | 3.6%    | -3.6% |
| Cash                   | 1.7%                      | 0.0%    | +1.7% |

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of December 31, 2006, 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.

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      |          |                             |
| 2006  | 97,690                        | 14,870                 | 15%              | 12                   | 14.66%                       | 13.50%   | 15.80%   | 1.1%                        |
| 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.