



Mid-Quarter Newsletter

MAY 25, 2007

From My Corner

Jeff Mengis



Gracing the homepage of our website are the words “trust”, “discipline”, & “consistency”. Remaining true to these values has driven strong growth here at Mengis Capital Management over the last 5½ years. However, along with growth comes change, and we are sorry to announce that Rob Greenman has left Mengis Capital to pursue other career opportunities. Rob has been a pleasure to work with and was a terrific asset to this firm. We wish him the very best in his future endeavors.

As Rob exits the firm, I am pleased to introduce Stacy Sizemore as a new member of our team at Mengis Capital. Stacy stepped into the role of Chief Operating Officer and Chief Compliance Officer on May 21st.

Stacy has over ten years of experience in the investment and financial services industry. With a strong background in marketing, she joined a local investment advisory firm to assist with the launch of a mutual fund. After obtaining her securities licenses, she joined Smith Barney where she managed the stock option and stock purchase plan for a large technology firm. There she soon found her niche in management and was promoted to Vice President and Operations Manager for an office catering to high net worth individuals.

Stacy is a fantastic fit with our firm culture and I'm excited for you all to get to know her. She is also looking forward to getting to know you and helping with your financial needs. Please introduce yourself to her when you call and don't hesitate to ask for her assistance with MoneyLink, quotes or anything else that may arise. Her knowledge of the industry and her operational background will certainly be an asset with her transition to Mengis Capital.

As the warm and sunny days of Summer swiftly approach, I wish you and your family a safe, happy, and most of all, fun season.

Investment Focus: QUALCOMM



Qualcomm (QCOM) is a designer and manufacturer of semiconductors for wireless phones and other equipment for advanced commercial wireless applications. The company is the chief architect and proponent of the third-generation (3G) wireless standard known as CDMA2000. QCOM is distinctively situated to benefit from the growth of 3G wireless and it's significant intellectual property positions the company to receive a royalty payment on each 3G handset sold worldwide. In addition, QCOM produces wireless communications and tracking systems for commercial applications.

Over the past several months, investors have worried about a patent dispute with Nokia. Shares declined in response to uncertainties surrounding the dispute. While legal issues are likely to dominate in the near term, the longer term looks quite positive for this company. QCOM could gain substantial share from Motorola as it expands into the 3G market. As well, QCOM would be a key beneficiary of China's eventual move to 3G.

QCOM's management recently increased earnings guidance above street expectations. Consensus earnings estimates for the current year are \$1.85 and \$2.09 for next year. Shares are currently trading at 22x FY07 estimates and 19x FY08, which is a sizeable discount from a historical average P/E of 31.8 times. Other quantitative measurements would also suggest these shares represent significant relative value based on past comparisons.





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

COSTCO	4.6%
INTEL	4.5%
GENERAL ELECTRIC	4.4%
GOLDMAN SACHS	4.4%
NATIONAL OILWELL VARCO	4.3%
SPRINT NEXTEL	4.0%
DISNEY	3.9%
IBM	3.6%
JOHNSON & JOHNSON	3.4%
BP PLC	3.4%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of March 31, 2007, cash represented 0.9% of the total composite. This information is presented as supplemental and complements the Annual Disclosure Presentation located at the bottom of this page.

Performance

	Year-To-Date	3 Year**	5 Year**	Since Inception** 10/1/98
Focused Taxable Composite	-0.52%	11.50%	6.21%	11.52%
S&P 500 Index	0.70%	10.04%	6.26%	5.66%

* 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. 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. 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.