



Mid-Quarter Newsletter

August 15, 2007

From My Corner

Jeff Mengis - President

Meet Cindy Aschbacher: As our firm grows and matures, we are pleased to announce another addition to our team, Cindy Aschbacher. Cindy joined our team on June 25th as a Portfolio Manager specializing in both fixed income and equity products. She has over 25 years of experience in the investment industry. Most recently, she was an Investment Advisor at RBC Dain Rauscher, having been with the firm since 1994 when it was Charter Investment Group.

Cindy is a life-long resident of Portland, Oregon and attended the University of Oregon. Her husband Dana specializes in commercial real estate investment properties and their daughter Ally is entering her freshman year at Beaverton High School. She and her family enjoy snow skiing, golfing and watching Ally play soccer and basketball. She brings much enthusiasm and a wealth of knowledge to our team!

Market Comments: Normally we reserve this space for company developments. Due to recent market uncertainties, we feel compelled to make a few comments regarding current market conditions.

The implosion of the sub-prime mortgage market has sent shockwaves through the entire credit system. After many years of low market volatility, we are now experiencing a re-pricing of risk in the financial markets. We believe that the Federal Reserve will ultimately come to the rescue. Although, if financial markets continue to decline, future economic growth could be impaired.

On the flip side, we are in the midst of one of the greatest global expansions in modern history. US corporate balance sheets are strong and interest rates are low on a relative basis. From a fundamental perspective, one of the most respected strategists on Wall Street believes the market is undervalued. Abby Joseph Cohen, Chief Strategist for Goldman Sachs, recently made comments suggesting that the SPX 500 is trading at a 10% discount to fair value based on historical quantitative measurements.

That said, it has not been our practice to predict short term market moves. Our discipline requires continual monitoring of portfolio holdings and evaluation of investment opportunities. If you have any questions or comments about your portfolio, please feel free to call. We hope you enjoy the remainder of your summer!

Investment Focus:



Starbucks Corporation (SBUX) engages in the purchase, roasting, and sale of whole bean coffees worldwide. The company offers brewed coffees, espresso beverages, cold blended beverages, various complementary food items, coffee-related accessories and equipment, a selection of premium teas, and a line of compact discs through its retail stores. The company's brand portfolio includes superpremium Tazo teas, Starbucks Hear Music compact discs, Seattle's Best Coffee, and Torrefazione Italia coffee.

As of June 15, 2007, Starbucks operated approximately 12,000 retail stores. The company recently announced an ambitious plan to open 2,600 stores next year. Management sees strong growth potential for the next several years, with increased international sales as a critical component to the overall growth strategy. In other developments, the company recently announced a 3% increase in prices offsetting higher costs and slightly reduced sales volume.

Consensus earnings estimates for FY07 are .87 and 1.06 for FY08. SBUX shares currently trade at less than 30X forward earnings estimates. During the past five years, shares have traded at forward P/E ratios between 27 and 51. Given the company's strong growth potential, we believe the current stock price represents a good entry point.





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

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	3.9%
Johnson & Johnson	3.6%

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.

Performance

	2 nd Quarter	3 Year**	5 Year**	Since Inception** 10/1/98
Focused Taxable Composite	6.88%	12.99%	11.33%	12.02%
S&P 500 Index	6.28%	11.68%	10.71%	6.24%

* 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, pure 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.