



Mid-Quarter Newsletter

November 15, 2007

From My Corner

Jeff Mengis - President

Meet Michael Patterson: Mengis Capital Management is pleased to introduce the newest member of our staff: Michael Patterson. Michael joined our team on October 1st as an Investment Advisor. Prior to joining Mengis Capital Management, he was a wealth manager for a small privately held firm called HAP International, Inc. for about three years. Michael also spent three years working as a Legislative Correspondent on business and financial matters for U.S. Senator Evan Bayh of Indiana.

Michael is a third generation Oregonian born in Portland. After graduating from Villanova University in 2002 and a short stint working back east, he returned home to Portland in 2005. His wife Toni is a senior account executive at a public relations firm downtown. He is looking forward to getting to know you and helping you with your financial needs so please feel free to ask Michael for assistance with quotes, making a transfer or any other questions you may have.

Market Comments: Over the last 90 days, the market has reached all-time highs and it has tested new bottoms. The increased volatility is due largely to uncertainty surrounding defaulting sub-prime loans made during the housing boom and their potential impact on the overall economy. In response, the Fed has reduced interest rates 75 basis points over the last two meetings in an attempt to support banks and lenders and thereby avoid a recession.

While we don't have all the answers, we see relative value in the markets over the long-term. From a historical perspective, the PE ratio of the S&P 500 is low relative to the current interest rate environment. This would suggest that stocks are inexpensive, assuming corporate earnings continue to deliver. If the global growth story continues to play out, many domestic companies with sales abroad should see earnings growth for some time to come.

In the meantime, we remain committed to identifying companies that we feel will do well in accordance with our long-term strategy. If you have any questions or comments about your portfolio, please feel free to call. We hope you will be able to join us at our office Holiday Reception on December 13th from 4-7 pm. Validated parking will be available at the Smart Park on 1st and Jefferson. An invitation should be arriving shortly with more details on the Reception.

Investment Focus:



Many of you are probably familiar with Pfizer Inc. (PFE), a pharmaceutical company that engages in the discovery, development, manufacture, and marketing of prescription medicines for humans and animals in the United States and around the world.

Pfizer's shares have been trading down this year due to concerns relating to patent expirations, few near-term pipeline products, some pipeline setbacks and new management's evolving turnaround strategy. With the PE ratio at 11X earnings, which is near historic lows for Pfizer, we feel the majority of these concerns have been factored into the current stock price.

Much of Pfizer's success will depend on the effective implementation of management's turnaround strategy and meeting earnings benchmarks that are currently forecasted at \$2.15 in FY2007 and \$2.31 in FY2008. According to Goldman Sachs, Pfizer currently has the richest mid-stage (phase II) pipeline in the industry. Long-term growth will be determined by Pfizer's ability to move forward with this pipeline. In the meantime, we're happy to collect Pfizer's sector-high dividend yield of 4.85%, which outperforms all benchmark yields on the yield curve. In addition, Pfizer has a strong balance sheet with \$22 billion in cash (or \$3.27 cash per share) and \$14 billion in operating cash flow. In this turbulent market, we view Pfizer as a long-term growth play with a healthy dividend as a bonus.





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	5.6%
Costco	5.2%
Cisco	5.0%
National Oil Well Varco	4.7%
General Electric	4.4%
Amgen	4.1%
BP	3.9%
Qualcomm Inc	3.7%
Goldman Sachs	3.6%
Sprint Nextel	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

	Year to Date 09/30/07	3 Year**	5 Year**	Since Inception** 10/1/98
Focused Taxable Composite	14.28%	14.59%	16.28%	12.44%
S&P 500 Index	10.87%	13.16%	15.47%	6.42%

* 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.