



Focused Taxable Composite

QUARTERLY PROFILE
4th QUARTER 2007

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 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. 1 year, 3 year, 5 year, and inception percentages are annualized figures.

Composite Highlights

NEW POSITIONS: Valero (VLO): is an oil refinery stock that has performed well for us in the past. Recently, refiners have struggled to profit as high oil prices have squeezed the margins of companies like Valero. As the public has come to accept higher \$3 gas prices, refiners have been able to pass some of the costs onto the end user. Valero is one of the few refineries able to refine cheaper sour crude, as well as expensive light sweet crude. This ability gives the company higher margins than its competitors. There is some concern that increased global competition among refiners will hurt industry profits, but analysts at Goldman Sachs believe these concerns are overblown and the stock price has adjusted accordingly. They think the Middle East will become a net importer of refined gas as their demand increases. Valero recently bought back 20% of its shares, which further confirms our belief that the company is trading at an attractive price.

INCREASED POSITIONS: We added to **International Game Tec (IGT)**, which is a leading provider of computerized gaming equipment. Many analysts that follow the gaming industry believe that casinos will upgrade their slot machine systems, and we feel IGT is well positioned to benefit. During these turbulent times, we are drawn to **Pfizer's (PFE)** healthy 4.9% yield and we have modest growth expectations for the company. We also added to **Genentech (DNA)** because we believe they have an attractive pipeline that could provide growth for the company near future.

DECREASED POSITIONS: During the 4th quarter we took profits from **IBM** and closed our position in **3M (MMM)** as we are looking to find better relative value in other companies. We also closed our profitable position in **Global Industries (GLBL)**, an oil construction and services company. In our experience smaller service companies like Global tend to do better in the middle of an up-cycle. Uncertainty and opaque financial statements forced us to close our position in **Citigroup (C)** to lessen our exposure to the financial sector. Finally, we all but eliminated our position in **Starbucks (SBUX)** out of fear that a recession would force coffee drinkers to cut back on premium coffee.

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Top Ten Holdings

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

Market Cap Segmentation (excludes cash)

Small (< 1.5 Billion)	0.30%
Mid (1.5 Billion – 10 Billion)	1.10%
Large (> 10 Billion)	98.60%

Sector Weights

Sector	Focused Taxable Composite	S&P 500	+ / -
Consumer Discretionary	9.0%	9.7%	-0.7%
Consumer Staples	6.8%	9.5%	-2.7%
Energy	21.1%	10.8%	+10.3%
Financials	7.3%	20.7%	-13.4%
Health Care	16.0%	11.7%	+4.3%
Industrials	8.8%	11.4%	-2.6%
Information Technology	24.6%	15.9%	+8.7%
Materials	1.9%	3.1%	-1.2%
Telecommunications	2.9%	3.7%	-0.8%
Utilities	0.0%	3.5%	-3.5%
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, 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.

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.