



Mid-Quarter Newsletter

May 14, 2008

From My Corner

Jeff Mengis – President

As Spring is blooming and summer is fast approaching (but not quickly enough), many investors are uncertain about our economy and the market. We do not claim to have all the answers, but we did want to share some of our thoughts on today's economic environment.

Q: Is the U.S. economy in a recession?

It's possible that we're in one already, but recessions are typically declared after the fact. Much of the recent expansion was a result of increased consumer spending as Americans cashed in on the equity of their homes. With a tighter credit climate and no equity to draw from, that spending growth is gone. Still the majority of homeowners refinanced into historically low interest rate loans, and should be able to continue to make payments if the job market doesn't significantly deteriorate. Uncle Sam is hoping that tax credits will spark consumer spending this summer. The Fed has also pumped unprecedented liquidity into the system and has lowered interest rates by 3.25% from 5.25% to 2%. Much of the stimulus from the lower rates is only now beginning to trickle into the economy. In addition, there may be added stimulus from corporate spending, with strong corporate balance sheets and historically high levels of cash. That said, there could be worse days to come for real estate.

Q: What is driving the oil/commodities boom?

Earlier in the year, the accepted wisdom was that oil and precious metals kept rising because the value of the dollar kept falling. But the dollar has since strengthened and the price of oil has continued to climb, while metals have fallen off their highs. As oil supplies have built over the last few months many economists say that the fundamentals don't support current prices. However, that doesn't mean the price of oil won't continue to climb on speculation of long-term supply constraints. One potential catalyst for declining oil prices could be slowing global growth. It remains to be seen whether the rest of the world has "decoupled" itself from the American economy, or if the saying still holds true: when America sneezes, the world catches the flu. If global growth does slow, energy prices will likely decline, which should give our economy some relief.

Q: What stocks should do well in this environment?

We have had a focus on energy stocks as well as stocks that have growing sales abroad and are poised to benefit from the weaker dollar. At the same time we are diversified into companies that would not feel as much pain if global growth were to slow like health care and pharmaceutical companies that stand to benefit from America's aging demographic.

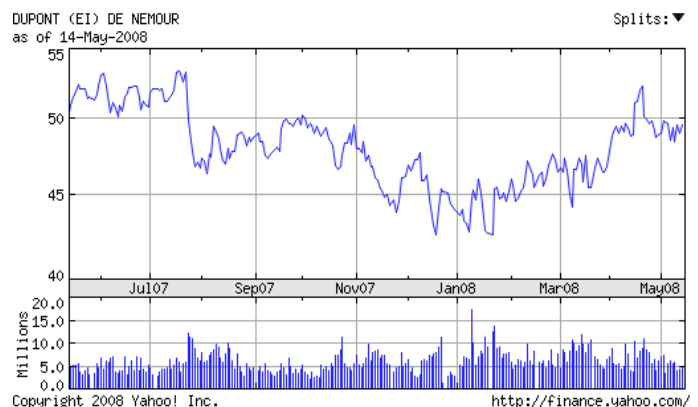
Investment Focus:



DuPont (DD) is a science and technology company that serves over 70 countries across a variety of industries including Agriculture & Nutrition, Coatings & Color Technologies, Electronic & Communication Technologies, Performance Materials, and Safety & Protection.

In its most recent quarter, DuPont reported nearly 24% growth in earnings over the same period in 2007 resulting largely from growth in its agricultural segment and strong international sales. It is likely that DuPont will continue to benefit from international sales as 60% of their revenue comes from sales abroad, which stand to benefit from the weak dollar. Analysts believe that DuPont will see continued strength in its agricultural segment amid increasing global food demands and soon-to-be released products that aim to improve farmers crop productivity.

During a period of increasing material inflation, DuPont has seen improved margins due to cost-control measures. There is a risk that the expense of raw materials, such as oil, will negatively affect their bottom line. However, DuPont has been successful to-date in passing that increased cost onto their customer. The company's earnings per share have increased from \$2.01/share in 2002 to an estimated \$3.50/share in 2008, yet the corresponding stock price has moved from a mean of \$41 in 2002 to \$49.58 today. The stock currently trades at a PE multiple of 13 while yielding 3.3%. Ultimately, we feel that DuPont is a well-run company that will benefit from pricing power and segment diversity within the company.





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 (as of 03/31/08)

Intel	6.2%
Costco	5.6%
General Electric	5.4%
Qualcomm	5.4%
Cisco Systems	4.7%
Precision Castparts	4.4%
Intl GameTec	4.3%
Valero	4.0%
Johnson & Johnson	4.0%
National Oil Well Varco	3.9%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of March 31, 2008 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

	1 Year**	3 Year**	5 Year**	Since Inception** 10/1/98
Focused Taxable Composite	-5.43%	5.07%	12.30%	9.60%
S&P 500 Index	-5.08%	5.85%	11.32%	4.48%

* 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. 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	121,952	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.