



Mid-Quarter Newsletter

May 15, 2009

From My Corner

Jeff Mengis – President

Market Comments:

For the last year and a half, all sectors within the equity market have been correlated alike. Almost all stocks were affected similarly – they went down. While this is not uncommon during periods of high volatility, there are now some signs that strategic stock selection could enhance portfolio returns going forward.

In this recent rally from March lows, owning the right stocks has made a difference. For example, a company like airline parts maker Precision Castparts (PCP) had been hampered by concerns over reduced product demand due to a strike at Boeing and reduced orders for planes. However, the stock has surged in recent months as investors looked past these short-term issues. Despite a difficult 2008, they still managed to earn record revenues and profits due to a disciplined management team, which improved productivity and took advantage of reduced material costs. Above all the company benefitted from their ability to make superior specialized products that significantly improve a plane's efficiency. This competitive advantage is why we companies like Precision Castparts for the long-term.

During difficult markets, we find it reassuring to evaluate each individual holding and review why we maintain a long-term position. In this environment, we want stock in companies that at a minimum have manageable debt, advantages over competition, strong management and an ability to maintain healthy margins. Our objective is to align our portfolios in companies that will emerge from this downturn positioned to thrive when the economy does recover. While we expect market fluctuation in the months ahead, we believe this approach will benefit our investments over the long-term. If you would like to review your portfolios with us, please do not hesitate to call. As we look forward to the warm days ahead, we wish you and your family a safe and enjoyable summer.

Investment Focus:



TEVA PHARMACEUTICALS USA

“Change” is a word we are all hearing a lot of these days. One sector of the economy bracing for significant change is health care and the pharmaceutical industry.

Many large pharmaceutical companies have a slate of blockbuster drugs coming off patent over the next few years. Furthermore, President Obama has proposed reducing patent protections for pharmaceutical companies. In addition, the weak economy is moving consumers away from expensive branded drugs to more affordable generic drugs. All this is occurring while the baby boomer generation nears retirement. One company that is poised to benefit from these trends is **Teva Pharmaceutical (Ticker: TEVA)**. TEVA is a global pharmaceutical company that develops, manufactures and markets generic and proprietary drugs. In 2008, 75% of Teva's \$11 billion in revenue came from generic drugs. As the trend shifts away from branded drugs toward generic, we believe Teva is well positioned to grow.

While many competitors are worried about losing revenue, Teva stands to gain revenue through new generic drugs. Currently, Teva has around 200 new product applications pending with the FDA. The branded versions of those drugs generate combined annual sales of \$110 billion. In addition, Teva is expected to realize cost savings of about \$400 million over the next three years from a recent merger with Barr Pharmaceutical, which compliments Teva's business and geographical footprint. Teva's stock price will depend somewhat on their ability to implement the merger. Fortunately, their management has experience with successful mergers over the last 5 year's. The company is also facing currency headwinds due to the stronger dollar, yet that risk appears to be priced into the stock. Teva is trading at 10X next year forecast earnings, making it an attractive entry point for a long-term holding.





Focused Taxable Composite

MID-QUARTER NEWSLETTER
2nd Quarter 2009

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 03/31/09)

Intel	5.5%
AT&T	5.4%
Amgen	4.6%
Cisco	4.6%
Costco	4.0%
Precision Castparts	3.5%
Valero Energy	3.1%
Qualcomm	3.0%
National Oilwell Varco	2.9%
Walt Disney	2.9%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of March 31, 2009, cash represented 21.1% 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	-8.55%	-11.99%	-2.19%	4.77%
S&P 500 Index	-11.01%	-13.06%	-4.76%	-0.60%

* Past performance does not guarantee future results. Numbers are net of fees. 3 year, 5 year and inception percentages are annualized 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. A review of this track record for compliance with the portability requirements of the GIPS standards was conducted by Ashland Partners & Company LLP. 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 change 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. 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. Mengis Capital Management, Inc. has been verified for the periods November 28, 2001 through September 30, 2008 by Ashland Partners. In addition, a performance examination was conducted on the Focused Taxable Equity Composite beginning November 28, 2001. A copy of the verification report is available upon request. 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		
2008	92,666	7,021	8%	13	(33.80%)	(34.45%)	(37.00%)	1.5%
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.