Mengis
CAPITAL MANAGEMENT INC.

Mid-Quarter Newsletter

November 15, 2009

From My Corner

Jeff Mengis – President

Market Comments: Over the past year, there has been a strong inverse relationship between the value of the dollar and the stock market. In other words, as the value of the dollar has fallen, the stock market has risen and vice versa. In recent months, the weaker dollar has decreased the price of our exports significantly, which has provided a tailwind to larger multinational companies that have a higher percentage of international sales. With about 48% of the revenues derived from abroad in the S&P 500, the expected increase in international sales has played a part in moving stock prices higher. On the other hand, a lower dollar also drives import prices higher, most notably the price of oil. Higher energy costs have the potential to put a drag on the recovery. We expect the dollar to remain relatively weak, however, we would not be surprised by a temporary bounce given the lopsided conviction toward a weaker dollar.

Currently, developing nations represent about 70% of the world's population and only 20% of its GDP. These emerging markets present an enormous long-term opportunity for multinational companies, especially when combined with the weaker dollar. After attending a recent conference highlighting industrial companies, we came away impressed with the amount of business that is being done overseas and the strong cash flows they are generating. We are favoring companies, like those discussed in the right-hand column, that can use cash flows to expand their business, pay down debt, buy back stock or increase dividends.

We will be sending your 2009 tax information along with our 4th quarter reports in January. If you have had an unusual or significant tax event, you should contact us soon. This will allow enough time to make the appropriate portfolio adjustments if necessary. Included in this newsletter is our Mengis Capital 2010 pocket calendar for your convenience. We hope that you enjoy your Holidays with family and friends and look forward to working with you during the New Year.

Investment Focus:

In this quarter's investment focus, we are highlighting three companies that we favor at Mengis Capital.

With locations in 119 countries, **McDonald's (MCD)** is a brand that is recognized in almost every corner of the globe. In good times and bad, this company has a strong track record of growing its business through innovation and strong management. In fact, despite the deepest recession since the Great Depression, McDonald's has used new products like McCafe coffee to grow sales year over year. With 65% of sales coming from abroad, McDonald's stands to benefit from a weaker dollar as well. The October sales report showed a 3.3% increase in same-store sales internationally and a 10.3% jump in total sales due in part to the currency tailwind. The strong balance sheet allowed the company to increase their dividend by 10% in September, resulting in a yield of 3.5%.

Cisco Systems (CSCO) makes networking gear that allows for faster and more efficient communication between computers. While sales of Cisco's products certainly dipped during the recession, it has likely created pent-up demand going forward. Cisco's CEO John Chambers has pointed to an uptick in bookings and orders during the 2nd and 3rd quarter as evidence that they are turning the corner on the recession. In developing countries like China and India, Cisco is seeing strong interest for their networking products. Sales abroad accounted for around half of 2009 revenues. The company recently used a portion of its $30 billion cash war chest for acquisitions to capture market share. Cisco is trading at a historically low multiple of 14.5X 2010 consensus earnings.

British Petroleum (BP) is one of the largest integrated oil companies in the world. The company recently announced a major find in the Gulf of Mexico that will significantly add to their proven reserves. That find, combined with projects in Indonesia and Russia are helping BP to be one of the few major oil companies currently boosting their output. If a global recovery takes shape, BP should be well-positioned to benefit from the resulting increase in the price of oil. In addition to their encouraging growth prospects, the company pays a healthy 5.8% dividend. BP currently trades at about 5.5X 2010 forecasted cash flow and about 10X next years forecast earnings, making the price historically attractive.

Focused Taxable Composite

MID-QUARTER NEWSLETTER
4th 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 09/30/09)

Intel	5.6%
Cisco	4.7%
Precision CastParts	4.5%
Amgen	4.5%
AT&T	4.2%
3M	4.0%
Costco	3.9%
Teva Pharmaceuticals	3.6%
McDonalds	3.5%
Disney	2.8%

Data presented represents a percent of the total market value of the Focused Taxable Equity Composite, including cash. As of September 30, 2009, cash represented 7.4% 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*	***5 Year****	***Since Inception**** *10/1/98*
Focused Taxable Composite	18.73%	2.34%	7.06%
S&P 500 Index	19.26%	1.02%	2.11%

* Past performance does not guarantee future results. Please see additional performance disclosures at the end of this presentation. Numbers are net of fees. 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 March 31, 2009 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.*

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