

# Mengis

CAPITAL MANAGEMENT INC.

## Mengis Capital Management, Inc. Form ADV Part 2A – Disclosure Brochure March 30, 2011

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This brochure provides information about the qualifications and business practices of Mengis Capital Management, Inc. If you have any questions about the contents of this brochure, please contact us at telephone numbers above or at [jeff@mengiscapital.com](mailto:jeff@mengiscapital.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about Mengis Capital Management, Inc. also is available at the SEC's website [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

We are a registered investment adviser with the Securities and Exchange Commission. Our registration as an Investment Adviser does not imply any level of skill or training.

## **Item 2 – Material Changes**

This brochure dated March 30, 2011 is a new document prepared according to the SEC's new requirements and rules. As such, this document is materially different in structure and requires certain new information that our previous Form ADV Part II did not require. In the future, this Item will discuss only specific material changes that are made to the brochure and will provide clients with a summary of those changes. We will also reference the date of our last annual update of our brochure.

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## Item 4 – Advisory Business

### **Our Firm**

Our firm, Mengis Capital Management, Inc. ("we," "us" or "our firm"), is an independent investment advisory firm registered with the SEC. Located in Portland, Oregon, we have been providing investment advisory services since Jeff Mengis founded our firm in 2001. Mr. Mengis is our firm's sole shareholder.

### **Our Services**

We offer professional, full-time management of clients' assets. We provide traditional, discretionary portfolio management for individuals, retirement funds, corporations, trusts and endowments. Our firm may also serve as a subadviser to other advisory firms and assist them in managing their clients' assets.

We specialize in management of individual equity and fixed income portfolios. In our management process we strive to achieve tax-efficiency for our clients through long-term capital gains and offsetting losses. We often use mutual funds and ETFs to complement our client portfolios.

*Individual Equities.* We seek out and invest in companies with strong quantitative and qualitative characteristics which, in our judgment, offer value and long-term performance potential to their shareholders. We also take into account relevant market conditions. We build equity portfolios one company at a time. Generally, an equity portfolio will hold 25-30 positions. Sector weights in an equity portfolio are determined by the underlying relative value of the companies within each sector (for example, if energy companies are trading at a perceived greater value relative to companies in other sectors, we increase the weight of that sector in the portfolio).

*Fixed Income Portfolios.* After assessing each client's income needs and risk tolerance, we assemble a customized fixed-income portfolio with core positions in either government, municipal, or corporate bonds. Where we think it may be appropriate, we use positions in specific asset classes that complement and diversify our holdings, such as preferred stock, high-yield bonds, global income, Treasury Inflation-Protected Securities, real estate investment trusts ("REITs") and limited partnerships.

*Mutual Funds.* Where suitable, we invest a portion of your assets in open-end mutual funds and/or ETFs to give you access to additional asset classes. We believe that mutual funds play an important role in portfolio composition. Mutual funds can provide diversification and focused research analysis in areas such as small capitalization, mid-capitalization, emerging and foreign markets, high-yield, real estate and socially responsible strategies. In evaluating mutual funds for our clients, we focus on performance against peers and benchmarks, performance in different market cycles, manager turnover, risk characteristics, and expenses. We have access to management tools that aid in identifying portfolio diversification and overlap. These reports break down individual holdings, allowing us to analyze each fund's composition.

## **Tailoring To Clients' Needs**

We tailor portfolios to meet individual needs of our clients. During the client intake process, our prospective clients fill out profile questionnaire, on which they describe their financial circumstances and indicate their investment objectives, risk tolerance, investment time horizons and any restrictions they want to place on the types of securities to be purchased for any of their accounts. In addition, after our initial meeting with each new client, we develop an Investment Policy Statement for that client. We review each client's Investment Policy Statement at least annually and update it, if necessary, to reflect any changes in their financial circumstances. Our clients bear the responsibility of keeping us informed of any subsequent changes so that we can continuously manage their assets in the manner suitable to their needs and objectives.

Although we generally have a broad discretionary authority over client assets, clients may impose restrictions on investing in certain securities or types of securities in the profile questionnaire, Investment Policy Statement or through any formal or informal communication to us. In those cases, we exercise our discretionary authority consistently with the clients' instructions and obtain the clients' approval before each transaction that may be inconsistent with those instructions.

## **Wrap Fee Programs**

We currently do not participate in wrap fee programs.

## **Assets Under Management**

As of December 31, 2010, the amount of client assets managed by us on a discretionary basis was \$93,952,204, and the amount of client assets we managed on a non-discretionary basis was \$17,876,540.

## **Item 5 – Fees and Compensation**

### **Our Fees**

We charge our clients advisory fees calculated as a percentage of the market value of the assets in their accounts, without adjustment for any margin debt. The maximum basic fee is 2.0% of the first \$500,000 of equities in each account, with fees decreasing on a sliding scale for amounts in excess of \$500,000. With respect to assets managed using a more aggressive strategy, we charge a higher fee than for the assets managed using our typical strategy.

Fees for the fixed-income portions of accounts range from 0.50% for municipal bond investments to 0.75% for taxable fixed-income investments.

The standard fee schedule for the equity portions of accounts is:

- 2.0% of equity assets up to \$500,000
- 1.5% of equity assets between \$500,000 and \$1 million
- 1.0% of equity assets over \$1 million

If a client requests services beyond our normal investment advisory services (for example, financial planning services), we may charge the client for such services at an hourly rate, based on the services requested and the person providing the additional services.

Our fees (and rates for special or additional services) are generally negotiable. Some clients pay more or less than others depending on certain factors, including the type and size of the account, the range of additional services provided to the client, and the total amount of assets managed for a group of related clients. Your fee is specified in your agreement with us.

### **Billing and Payment**

You pay our fees quarterly in advance of each quarter. Generally, our fees for a particular quarter are deducted from the clients' accounts on the first business day of each quarter based on the value of assets in the account as of the close of business on the last business day of the preceding quarter. We send to clients their account statements showing the balance as of the last day of each quarter net of our advisory fees for that quarter. For instance, on April 1, we will deduct from each client's account our fees for the second quarter based on the assets in the account as of the last business day of March. With our quarterly reports for the first quarter, we send to each client a statement showing the balance in the account as of March 31 and the fees deducted for the second quarter.

On your written request, we will deduct our entire fee from one or more related accounts rather than proportionally from all your related accounts. If you do not have enough cash in your account to pay our fee, we may sell some of your account assets to pay the fee.

### **Expenses**

In addition to our fees, clients are responsible for other fees and expenses.

*Mutual Funds and ETFs.* We may exercise our discretion to invest a portion of client assets in open-end or closed-end mutual funds or in exchange-traded funds ("ETFs"). These funds, in our judgment, may offer unique investment opportunities due to greater diversification, and/or focused research analysis in areas such as emerging growth, foreign markets and higher-yield investments. If we conclude that mutual funds or ETFs are appropriate additions to a client's portfolio, such investments will increase the cost to the client. In addition to our fee, the client may incur a commission or transaction fee when the mutual fund or ETF is purchased and will incur an annual management fee by the manager of the mutual fund or ETF. We do not receive any part of such fees. These fees and expenses are described in each fund's prospectus, and will generally include a management fee, other fund expenses, and a possible distribution fee. When considering an investment in a mutual fund or ETF, we will evaluate the relative annual costs as a part of the decision.

A client could invest in a mutual fund or an ETF directly, without our involvement. In that case, the client would not receive the benefit of our services, which are designed, among other things, to assist the client in determining which, if any, mutual funds and ETFs are most appropriate to that client's financial condition and objectives. Accordingly, clients should review the fees charged by the mutual funds or ETFs, and our fees, to fully understand the total amount of fees to be paid and to evaluate the advisory services being provided.

*Brokerage.* Clients will also incur brokerage and other transaction costs. See Item 12 below for a detailed discussion of brokerage commissions. We place equity transactions with Charles Schwab & Co., Inc., an independent and unaffiliated broker-dealer ("Schwab"). We acknowledge our duty to seek best execution of trades for our clients and, consistent with that duty, use other brokers from time to time.

*Custodians.* We require each client to have a third-party custodial relationship. Generally, we recommend that our clients use Schwab as their custodian. For accounts custodied at Schwab, Schwab does not charge separate custody fee but receives compensation in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Like most other custodians, Schwab also receives a fee for clearance and settlement of trades that are executed through broker-dealers other than Schwab. Schwab's fees for trades executed by other broker-dealers are in addition to the fee charged by the other broker-dealer. When trades are executed through other broker-dealers, the trades may be executed at different times and different prices than trades executed by Schwab.

We may enter into an agreement with a broker-dealer, which would provide research to us in exchange for us executing certain trades through that broker-dealer. If client assets are not custodied with that broker-dealer, clients will pay the broker-dealer a brokerage commission and will also pay the custodian a separate fee. Research received pursuant to any such arrangement is expected to benefit all of our clients.

### **Prepayment and Refunds**

As our fees are deducted quarterly in advance, we make pro rata fee adjustments for additional assets placed in an account in excess of \$20,000 during a quarter. No fee adjustments are made for partial withdrawals or for account appreciation or depreciation within a billing period.

If your agreement with us begins during a quarter, we will prorate the fee you pay for the initial partial quarter, based on the number of days from the beginning of your agreement until the end of the initial quarter. Our client agreement may be terminated on 30 days' written notice by either you or us. If your agreement terminates during a quarter, we will refund a pro rata portion of the fee you paid for that quarter, based on the number of days between the end of the 30-day notice period and the end of the quarter.

### **Sales Charges or Fees**

We do not accept compensation for the sale of securities or other investment products, including asset-based sales charges or service fees from the sale of mutual funds.

## **Item 6 – Performance-Based Fees and Side-By-Side Management**

We do not charge or accept any performance-based fees.

## **Item 7 – Types of Clients**

We provide investment advice to individuals, high net worth individuals, pension plans, charitable organizations and corporations/other businesses. Before entering into an advisory relationship with a client, we generally require that accounts under our management have a minimum aggregate value of \$250,000. The values in the accounts beneficially owned by related person(s) and/or entities (such as, accounts held by husband and wife individually, by their IRAs and trust(s) for the benefit of their children) are aggregated for purposes of the minimum balance requirement. In addition, we may waive this requirement under certain circumstances.

## **Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss**

### **Methods Of Analysis And Investment Strategies**

In formulating our investment advice and managing client assets we use fundamental and technical methods of analysis. Fundamental analysis involves the review of companies' "fundamentals" (balance sheet, cash flow and income statements, etc.), as well as other factors that can affect the value and price of these companies' stock. Taking into account macro and micro economic climate and applicable industry conditions, we seek out companies that:

- have compelling business models
- have solid business fundamentals with potential for long-term enhancements
- operate in industries with future growth opportunities and present profitable operations
- have strong management team committed to increasing shareholder value
- have attractive valuations

We also use a "technical" method to evaluate securities. This means we analyze statistics generated by market activity, such as past prices and volume. This method of analysis does not seek to measure a security's intrinsic value, but seeks rather to use charts to identify patterns that can suggest future **[trading and price?]** activity.

Our investment strategies include long-term purchase and short-term purchases. In trading individual equities, we generally purchase for long-term investment (at least one year). We prefer to hold a particular equity for as long as the original reasons for selecting that equity remains sound. However, we believe it best to sell all or a portion of your position in that equity in less than a year under the following circumstances:

- if there is a change in the original reasoning for selecting the equity, such as a deterioration or change in the firm's fundamentals;
- if we need to make room for a more compelling opportunity;
- if our target price has been met and the security is no longer attractive from a valuation perspective; or
- to rebalance the client's total portfolio.

We rarely, if ever, sell a security in less than 30 days, or buy or sell options or warrants.

Some clients may wish to use margin in their accounts. In a margin transaction, the client will pay a portion of the purchase price for the investment and borrows the rest from the broker. Clients determine the maximum amount of margin, if any, they will use. We do not recommend trading on margin as part of any strategy.

### **Risks For Methods Of Analysis And Strategies**

For each significant investment strategy or method of analysis we use, the general risks affecting the investment results include, without limitation, the following: inaccuracy in fundamentals, corporate leadership failure or misconduct, market risk and volatility, inaccurate credit rating, lack of disclosure, corporate default, and unforeseeable force majeure events (such as wars, natural disaster, labor strikes, etc.).

Investing in securities involves risk of loss that our clients should be prepared to bear. While our fundamentals and technical analysis is based on information that comes from sources that we believe reliable, we cannot guaranty their accuracy. We may misjudge the attractiveness, value and potential appreciation of a particular asset class or individual security. We cannot guarantee that securities we select will perform as anticipated. The value of an individual security can be more volatile than the market as a whole, our estimate of intrinsic value may be wrong or it may take a long time to realize. These risks are outside of our control and may result in a loss of the assets we manage. We seek to reduce these risks through diversification. However, diversification may not protect assets in a down market. Although we will exercise careful judgment and diligence in managing your assets, we cannot guarantee any level of performance or that you will not experience a loss in your assets.

Our agreement with you states that we are not liable to you for:

- any loss you suffer because of any investment decision we make or other action we take or do not take in accordance with our agreement with you;
- any loss you suffer because we follow your instructions; or
- any act or failure to act by any custodian or broker.

Nevertheless, nothing in our agreement with you constitutes your waiver of any legal right under applicable federal law or state securities laws or any other law whose applicability may not be waived through contract. If there is a discrepancy between the information in this brochure and your agreement with us, your agreement will control.

### **Recommended Securities**

Risks associated with particular types of investments are specified below.

*Equity Securities.* These securities face risks such as:

- Large-Cap Company Risk – There is a risk that returns from large-cap growth stocks will trail returns from the overall stock market. Large-cap stocks tend to go through cycles of doing better, or worse, than the stock market in general.
- Concentration Risk – We use a focused strategy compiling 25-30 stocks to create a reasonably diversified equity portfolio. This concentration is relatively high, and may



have a greater investment risk when compared to the S&P 500 index, which we use as a performance benchmark for our equity portfolios. The performance of one company or one sector can have a stronger impact on the performance of the portfolio.

*Fixed-Income Securities.* These securities face risks, such as:

- Interest Rate Risk – Fixed-income securities increase or decrease in value based on changes in interest rates. If rates increase, the value of fixed-income securities generally declines. On the other hand, if rates fall, the value of the fixed-income securities generally increases.
- Credit Risk – There is a risk that issuers and counterparties will not make interest and/or principal payments on the securities they issue or that their payments will not be made when due. In addition, the credit quality of securities may be lowered if an issuer's financial condition changes. Lower credit quality may lead to greater volatility in the price of a security, and that may affect liquidity and our ability to sell the security.
- Call Risk – There is a risk that falling interest rates will cause an issuer of fixed-income securities to redeem (call) its high-yielding fixed-income securities before their maturity date forcing reinvestment at a lower rate.

*Mutual Funds and ETFs.* These funds face risks based on the investments they hold:

- Small and Mid-Cap Company Risks – Investments in small and mid-cap companies may be riskier than investments in larger, more established companies. The securities of these companies may trade less frequently and in small volumes than securities of larger companies. In addition, small and mid-cap companies may be more vulnerable to economic, market and industry changes. Because smaller companies may have limited product lines, markets or financial resources, or may depend on a few key employees, they may be more susceptible to particular economic events or competitive factors than larger capitalization companies.
- International & Emerging Market Fund Risk – Investments in international and emerging market companies may be riskier than investments in domestic companies. There is a risk that the country's currency could lose value relative to the dollar, decreasing the company's value. A potential for sovereign risk, that a country could be overthrown, depressing the value of a company. In addition, investments in international markets have the potential for less financial transparency, which can distort the fundamentals of a company.
- Sector Stock Fund Risks – A sector stock fund (which invests in a single industry, such as telecommunications) is at risk that its price will decline due to developments in its industry.

## **Item 9 – Disciplinary Information**

We do not have any legal or other disciplinary item to report to you. We are obligated to disclose any disciplinary event that would be material to you when evaluating us to initiate a client/adviser relationship, or to continue a client/adviser relationship with us.

## **Item 10 – Other Financial Industry Activities and Affiliations**

We are obligated to disclose if we, any of our "supervised persons" (meaning our employees and independent contractors), or any of our affiliates are involved in other financial industry activities, such as those of a broker-dealer, commodity pool operator or a futures commission merchant. We are also obligated to disclose if we receive compensation from other advisers for recommending or selecting those advisers for you.

We do not have any other financial industry activities or affiliations to report to you and we do not require compensation from other advisers for recommending or selecting them.

## **Item 11 – Code of Ethics**

### **Summary**

We have adopted a Code of Ethics (the "Code"), which requires us and all of our employees, officers, directors and independent contractors ("associated persons") to act in the best interests of our clients and in compliance with federal securities laws.

The Code is a part of our Business & Compliance Manual (the "Manual"). Our compliance officer administers and enforces the Manual and provides each associated person with a copy of the Manual, as well as any amendments. All associated persons must: (a) execute an acknowledgement of receipt of the Manual and any amendments to the Manual; and (b) report to the compliance officer any violations of the Code.

With respect to their personal securities trading, each associated person must (a) identify securities accounts in which he or she has a direct or beneficial interest; (b) make no personal trades for securities which we are in the process of buying for client accounts until the compliance officer confirms that the client transactions were completed or that the associated person's trade is included in a block transaction at a price no better than the clients' trades; and (c) report all personal securities transactions by providing monthly account statements to the compliance officer.

Additional requirements of the Code apply to associated persons with access to nonpublic information regarding a client or investment recommendations made to the client ("access persons"). Each access person must: (a) within 10 days after acquiring the status of an access person, and annually thereafter, submit reports providing certain information regarding all securities (other than obligations of the U.S. government, liquid investments, shares of money

market funds or domestic open-end mutual funds unaffiliated with us) beneficially owned by the access person; (b) submit reports of all transactions in securities beneficially owned by the access person, which reporting requirement may be satisfied by providing to the compliance officer monthly account statements from the securities firm maintaining the access person's account; and (c) obtain the compliance officer's pre-approval to investing in an initial public offering or a private placement. The compliance officer will review each report submitted by the access persons, as well as each quarterly statement received for each associated person's account. Mr. Mengis reviews the compliance officer's reports and quarterly statements.

We will provide a copy of our code of ethics to any current or prospective client upon request.

### **Cross Transactions**

We do not recommend to our clients, or buy or sell for client accounts, securities in which our firm or a related person has a material financial interest.

### **Transactions In Securities Recommended To Clients**

Occasionally, our employees may want to invest in the same securities (or related securities, such as, warrants, options or futures) recommended to our clients. In this situation, a conflict of interest might arise if our employees' investments are executed on better terms or prior to client trades. We address this conflict of interest by restricting employees' personal trades as stated in the Code: employees cannot make personal trades in securities which we are in the process of buying for client accounts until the compliance officer confirms that the client transactions were completed or that the employee's trade is included in a block transaction at a price no better than the clients' trades;

## **Item 12 – Brokerage Practices**

### **Broker Selection Criteria**

Our management discretion includes the selection of the security, the amount to be purchased or sold, the broker or dealer to be used, and the commission rate to be paid. We select brokers on the basis of their overall assistance in terms of execution capabilities, commission rate, financial responsibility, responsiveness and research-related products and services provided to us. Commission rates paid to the broker selected by us may be higher than the lowest commission rate available. We select brokers on the basis of the quality and/or amount of services the brokers provide to us. Under some exceptional circumstances, we may be able to negotiate an asset-based transactional fee instead of commissions for high frequency trading accounts.

*Research and Other Soft Dollar Benefits.* Our firm participates in a program with Schwab, whereby Schwab provides certain brokerage and/or research services, including, without limitation, the maintenance of certain computer hardware, software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, and assist with back-office functions, recordkeeping and client reporting. These services generally may be used to service

all of our client accounts, including accounts not custodied at Schwab. In exchange for these services, subject to the obligation to obtain best execution for our clients, we place certain equity transactions with Schwab. We acknowledge our duty to seek best execution of trades for its clients and, consistent with that duty, use other brokers from time to time.

"Research" means direct advice, publications or software that assists us in performing investment decision-making. Research also includes written materials and conferences with experienced professionals affiliated with or paid by the executing broker. Such benefits include access to FactSet, a research tool that helps us to choose investments. FactSet's tools allow us to monitor global markets, public and private companies, and equity and fixed-income portfolios.

When we use client brokerage commissions (or markups or markdowns) to obtain research, we receive a benefit because we do not have to produce or pay for the research. We may have an incentive to select or recommend a broker based on our interest in receiving the research rather than on your interest in receiving most favorable execution.

Research-related products and services we receive generally will be allocated to all of our client accounts. We do not seek to allocate soft dollar benefits only to those that pay for the benefits or proportionally to the soft dollar credits generated by an account.

During our last fiscal year, we did not direct any client transaction to a particular broker in exchange for soft dollar benefits.

*Brokerage for Client Referrals.* We do not direct client transactions to a particular broker-dealer in return for client referrals.

*Directed Brokerage.* Clients may direct us to select specific brokerage firms or place assets with a specified broker or custodian. In some cases, this request may result in higher commissions and/or less favorable executions on some transactions than we might otherwise be able to attain. The client may forgo any benefit from savings on execution costs that we could obtain through negotiating volume discounts on block transactions. The client may direct us to use a particular broker from whom we receive or may receive referrals, and we may derive a benefit from the client's direction.

For accounts of our clients maintained in custody at Schwab, Schwab does not charge the client separately for custody but receives compensation from our clients in the form of commissions or other transaction-related compensation on securities trades executed through Schwab. Like most other custodians, Schwab also receives a fee for clearance and settlement of trades that are executed through broker-dealers other than Schwab. Schwab's fees for trades executed by other broker-dealers are in addition to the fee charged by the other broker-dealer. When trades are executed through other broker-dealers, the trades may be executed at different times and different prices than trades executed by Schwab.

*Aggregation and Allocation of Trades.* Typically, we cause similarly situated client accounts to engage in similar trades. Thus, if we believe that a particular security is suitable for one account, we will buy the same security for the other similarly situated accounts, except for those accounts, with respect to which we were directed to make other trades (or no trades) by the clients. For example, clients may direct us to trade certain securities in their accounts at a

particular price or particular time. Clients directing such trades may receive a different price for the same security that is traded for other accounts pursuant to its general advisory discretion.

To obtain more favorable order execution, we will aggregate contemporaneous buy or sell orders for same securities, with applicable accounts participating in the aggregated order on a pro rata basis. Occasionally, an aggregated order may only be partially filled. Under such circumstances, the transaction generally will be allocated among the applicable clients on a pro rata basis. Exceptions to the pro rata allocation of partially filled orders may occur for several reasons, including without limitation avoidance of odd lots or de minimis numbers of shares and sensitivity toward the total transaction cost to be incurred by the client. There may be instances when partially filled orders may adversely affect the size of the position or the price paid or received by a client, as compared with the size of the position or price that the client would have received had no aggregation occurred.

The aggregation and allocation policies above apply to trades in equity and fixed income securities.

*Wrap Fee Arrangements.* Although Mengis Capital has no "wrap fee" arrangement as of the date of this brochure, we may be retained under a "wrap-fee" arrangement offered by a broker-dealer. The broker-dealer may recommend our firm as an investment advisor, pay our investment management fee on behalf of the client, monitor and evaluate our performance, execute the client's portfolio transactions without commission charge, and provide custodial services for the client's assets, or provide any combination of these services, all for a single fee paid by the client to the broker-dealer. However, in evaluating such an arrangement, a client should recognize that we do not negotiate commissions for the execution of such brokerage transactions. Transactions in accounts paying a wrap fee are effected "net" (without commission) and a portion of the wrap fee is generally considered as being paid in lieu of commissions. Because trades are generally required to be executed only by the broker-dealer receiving the wrap fee, we will not be free to seek the best price for transactions and generally will not be able to include such clients in aggregated trade transactions. We cannot assure that a particular brokerage firm will provide adequate price and execution on transactions. The client should also consider that, depending on the level of the wrap fee charged by the broker-dealer, the portfolio activity in the client's account, the value of custodial and other services provided under the arrangement, and other factors, the wrap fee may or may not exceed the aggregate cost of such services if they were to be provided separately and if we were free to negotiate commissions and seek the best price and execution of transactions for the client's account.

## **Item 13 – Review of Accounts**

### **Account Reviews**

Account reports are updated by our in-house network system and are available to us on-line daily. These reports include the following information about each security held in the client's account: cost, current market value, income and percent of total assets. Securities are sorted by industry on the reports. Our system also reconciles these records with each client's custodian records, and any discrepancies are resolved promptly. All assets are held by unaffiliated

custodians. Each account is reviewed by Jeff Mengis, Cindy Aschbacher or Michael Patterson regularly, at least quarterly.

Messrs. Mengis and Patterson and Ms. Aschbacher consistently evaluate general market conditions along with events, fundamentals and disclosures relevant to individual holdings in client portfolios. Information about Messrs. Mengis and Patterson and Ms. Aschbacher is included in the attached brochure supplements. We do not have a specific maximum number of accounts that can be reviewed by one person, but believe that a person generally will be responsible for no more than 200 households.

### **Reports to Clients**

Our clients receive monthly statements from their independent custodians. We provide clients detailed quarterly reports, including performance analysis for all billed accounts. We urge clients to compare the performance reports they receive from us with the account statements they receive from their custodian.

## **Item 14 – Client Referrals and Other Compensation**

### **Referral Fees Paid by Our Firm**

Our firm has entered into a referral agreement with Northwest Bank (the "Bank"). Under that agreement, we will receive client referrals from the Bank and will pay the Bank referral fees with respect to each client who opens an advisory account with us within three months after the referral (the "Account"). The referral fee will be paid quarterly at the following rate: (a) 25% of the advisory fees collected from the Account during the first three years, (b) 10% of the advisory fees collected from the Account during the subsequent two years, and (c) 5% of the advisory fees collected from the Account after five years and until the Account is closed for any reason. The referral fees will be paid by us and not by the referred client. We will not charge clients referred through the Bank fees or costs greater than the fees or costs we charge clients with similar portfolios who are not referred through the Bank.

### **Benefits from Custodians**

*General.* We receive no compensation for suggesting a particular broker or bank as your custodian. However, certain custodians provide products and services that benefit us and our client accounts. Some of these other products and services assist us in managing and administering client accounts. These include software and other technology that:

- provide access to client account data (such as trade confirmations and account statements)
- facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts)
- provide research, pricing information and other market data
- facilitate payment of our fees from our clients' accounts
- assist with back-office support, recordkeeping and client reporting

Many of these services may be used to service all or a substantial number of our accounts, including accounts not maintained with that particular broker. These products and services benefit us by allowing us to more quickly and accurately service our clients.

Various brokers also make available to us other services intended to help us manage and further develop our business. These services may include:

- publications and conferences on practice management
- information technology
- business succession planning
- regulatory compliance
- marketing

In addition, brokers may make available, arrange and/or pay for these types of services when provided to us by independent third parties. The brokers may discount or waive fees they would otherwise charge for some of these services or pay all or a part of the fees of a third party providing these services to us. As a fiduciary, we seek to act in our clients' best interests. However, our recommendation that clients maintain their accounts with these brokers may be based in part on the benefit to us of these products and services, and not solely on the nature, cost or quality of custody or brokerage services these brokers provide. Although this may create a potential conflict of interest, we believe these products and services are in the best interests of our clients.

*Institutional Services Programs.* We participate in institutional services programs offered to independent investment advisers by various brokers (including Schwab). We typically recommend such brokers to clients who need brokerage and custodial services. We are not affiliated with any broker.

As part of their institutional programs, brokers normally provide us with access to their institutional trading and operations services. These institutional programs generally are available to independent investment advisers, at no charge to them so long as the adviser's clients collectively maintain a specified balance of account assets with the broker. The broker services include brokerage, custody and research services, as well as access to mutual funds and other investments that are otherwise available only to institutional investors or would require a significantly higher minimum initial investment.

These brokers generally do not charge separately for custody. They are compensated by account holders either (a) paying a quarterly fee based on a percentage of the account value, or (b) paying commissions or other transaction-related fees for trades that are executed through the broker or that settle into client accounts held with the broker.

We generally recommend brokers providing institutional services programs to our clients for custody of client assets and for the execution of equity, mutual fund and ETF transactions. We regularly review these programs to ensure that our broker recommendations are consistent with our fiduciary duty.

## **Item 15 – Custody**

We do not provide custodial services to our clients. Your assets must be held with a bank, registered broker-dealer or other "qualified custodian." You will receive statements directly from your custodian at least quarterly. We urge you to carefully review the custodial statements and compare them to the reports we send you. The information in our reports may vary from your custodial statements based on accounting procedures, reporting dates or valuation methodologies of certain securities.

## **Item 16 – Investment Discretion**

Our authority in managing your account includes the full discretionary power to purchase, sell and exchange securities and other instruments, exercise all rights conferred on the holder of such assets, and reinvest all proceeds.

Your agreement with us gives us the authority to exercise full discretion, except for filing claims in connection with class action settlements, as described below. In addition, we observe investment limitations and restrictions that you provide to us in your client intake questionnaire, Investment Policy Statement or other formal or informal communications.

## **Item 17 – Voting Client Securities**

As a provider of investment supervisory services, our firm is generally authorized to vote proxies on behalf of its clients in accordance with its Proxy Voting Policy summarized below.

We monitor corporate actions and collect proxies from the clients' custodians, determine the issues to be voted on, identify and resolve any conflicts of interest, make voting decisions, and timely submit proxies. We will resolve any conflict of interest between us and a client by obtaining the client's written consent, by obtaining a voting recommendation from an independent third party, or by voting in accordance with our pre-determined voting guidelines, under which we generally vote with a company's management on "routine" issues, such as uncontested elections of directors. With respect to "non-routine" issues, we generally vote in favor of proposals promoting director independence and employee participation (such as, establishment of stock incentive plans for employees) and against proposals inhibiting the same. Careful consideration on a case-by-case basis will be given to other non-routine matters, including proposed mergers and recapitalizations. We may disregard the voting guidelines in situations where a client's best interest would be served by voting otherwise.

We will maintain for five years the following records: a copy of its Proxy Voting Policy; records of votes cast by it on behalf of its clients; records of written requests from clients for their proxy voting information and our written responses; any document prepared by Mengis us, our affiliates or agents in connection with any voting decision; and proxy statements in hard copy or as obtainable via the EDGAR system. A client may obtain a full copy of our Proxy Voting Policy or the information on how we voted securities held by the client by calling us at



(503) 916-0776 or by sending a written request to Mengis Capital Management, Inc., Attn: Jeff Mengis, One SW Columbia, Suite 780, Portland, OR 97258.

### **Item 18 – Financial Information**

We must disclose any financial condition that could impair our ability to meet our contractual obligations to you. We have no financial matters to disclose to you.

# Mengis

CAPITAL MANAGEMENT INC.

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## Mengis Capital Management, Inc.

Form ADV Part 2B – Brochure Supplements For Our Advisory  
Employees

March 30, 2011

## Item 1 – Cover Page

This brochure supplement is provided on **J. Jeffrey Mengis**.

Mr. Mengis' contact information is:

J. Jeffrey Mengis  
President and CEO  
One S.W. Columbia, Suite 780, Portland, OR 97258  
(503) 916-0776

March 30, 2011

This brochure supplement provides information about J. Jeffrey Mengis that supplements Mengis Capital Management, Inc.'s brochure. You should have received a copy of that brochure. Please contact Mr. Mengis if you did not receive Mengis Capital Management, Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about Mr. Mengis is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Educational Background And Business Experience**

**J. Jeffrey Mengis**  
**President and CEO**

Year of Birth:  
1959

Education:  
Oregon State University – B.S., Business Administration, 1982

Business:  
2001-present – Mengis Capital Management, Inc., President & CEO (Chief Compliance Officer from March 2004 to March 2006 and during portions of May 2007 through September 2007)  
1999-2001 – Sutro & Co., Inc., Portfolio Manager/Vice President – Investments  
1998-1999 – Charter Investment Group, Portfolio Manager/Vice President – Investments (Charter purchased itself back from Sutro & Co. in 1998)  
1997-1998 – Sutro & Co., Inc., Portfolio Manager/Vice President – Investments  
1990-1997 – Charter Investment Group, Vice President – Investments  
1987-1990 – Black & Company, Investment Executive

## **Item 3 – Disciplinary Information**

We do not have any legal or other disciplinary item to report to you. We are obligated to disclose any disciplinary event that would be material to you when evaluating Mr. Mengis.

## **Item 4 – Other Business Activities**

Mr. Mengis is registered as a representative of Mengis Capital Management, Inc. Outside of this work with the firm, he is not actively engaged in any investment-related business or occupation, nor is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant ("FCM"), commodity pool operator ("CPO"), commodity trading advisor ("CTA"), or an associated person of an FCM, CPO, or CTA. Furthermore, Mr. Mengis is not engaged in any other business activity or activities that provide a substantial source of his income or involve a substantial amount of his time.

## **Item 5 – Additional Compensation**

No one who is not a client of our firm provides an economic benefit to Mr. Mengis in exchange for his advisory services.

## **Item 6 – Supervision**

As President of Mengis Capital Management, Inc., Mr. Mengis is primarily responsible for supervision of our firm and its representatives. Mr. Mengis is himself an employee of the firm providing personal investment advice to our clients and registered as the firm's investment adviser representative. We supervise our employees who advise clients, and we monitor the investment advice they give. Mr. Mengis must comply with our Code of Ethics and Compliance Manual. In addition, Mr. Mengis, along with other employees of our firm, must follow the process that allows us to ensure that our client accounts are invested consistently within the parameters set in accordance with the firm's policies and procedures. Mr. Mengis' clients' account statements are reviewed for compliance with those parameters.

In addition, Mr. Mengis' personal accounts and activities are reviewed by:

Cynthia M. Aschbacher  
Chief Compliance Officer and Portfolio Manager  
One S.W. Columbia, Suite 780, Portland, OR 97258  
(503) 916-0776

## Item 1 – Cover Page

This brochure supplement is provided on Cynthia M. Aschbacher.

Ms. Aschbacher's contact information is:

Cynthia M. Aschbacher  
Chief Compliance Officer and Portfolio Manager  
One S.W. Columbia, Suite 780, Portland, OR 97258  
(503) 916-0776

March 30, 2011

This brochure supplement provides information about Cynthia M. Aschbacher that supplements Mengis Capital Management, Inc.'s brochure. You should have received a copy of that brochure. Please contact Jeff Mengis if you did not receive Mengis Capital Management, Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about Ms. Aschbacher is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 – Educational Background And Business Experience**

**Cynthia M. Aschbacher**  
**Chief Compliance Officer and Portfolio Manager**

Year of Birth:

1960

Education:

University of Oregon – B.S. Real Estate, 1982

Business:

June 2007-present	Mengis Capital Management, Inc. – Chief Compliance Officer and Portfolio Manager (Chief Compliance Officer since September 2007)
1994-June 2007	RBC Dain Rauscher (formerly Sutro & Co./Charter Investment Group, Inc.)
–	Investment Executive/Municipal Sales
1988-1994	U.S. Bancorp Securities, Inc. – Investment Officer
1983-1988	Shearson Lehman Hutton – Vice President, Municipal Liaison

## **Item 3 – Disciplinary Information**

We do not have any legal or other disciplinary item to report to you. We are obligated to disclose any disciplinary event that would be material to you when evaluating Ms. Aschbacher.

## **Item 4 – Other Business Activities**

Outside of this work with the firm, Ms. Aschbacher is not actively engaged in any investment-related business or occupation, nor is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant ("FCM"), commodity pool operator ("CPO"), commodity trading advisor ("CTA"), or an associated person of an FCM, CPO, or CTA. Furthermore, Ms. Aschbacher is not engaged in any other business activity or activities that provide a substantial source of her income or involve a substantial amount of her time.

## **Item 5 – Additional Compensation**

No one who is not a client of our firm provides an economic benefit to Ms. Aschbacher in exchange for her advisory services.

## **Item 6 – Supervision**

As Chief Compliance Officer of Mengis Capital Management, Inc., Ms. Aschbacher is primarily responsible for monitoring and enforcing our firm's and employees' compliance with our Code of Ethics and Compliance Manual. Ms. Aschbacher is herself an employee of the firm providing personal investment advice to our clients and registered as the firm's investment adviser representative. We supervise our employees who advise clients, and we monitor the investment advice they give. Ms. Aschbacher must comply with our Code of Ethics and Compliance Manual and, along with other employees of our firm, must follow the process that allows us to ensure that our client accounts are invested consistently within the parameters set in accordance with the firm's policies and procedures. Ms. Aschbacher clients' account statements are reviewed for compliance with those parameters.

In addition, Ms. Aschbacher's personal accounts and activities are reviewed by:

J. Jeffrey Mengis  
President and CEO  
One S.W. Columbia, Suite 780, Portland, OR 97258  
(503) 916-0776

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## Item 1 – Cover Page

This brochure supplement is provided on Michael D. Patterson.

Mr. Patterson's contact information is:

Michael D. Patterson  
Research/Portfolio Manager  
One S.W. Columbia, Suite 780, Portland, OR 97258  
(503) 916-0776

March 30, 2011

This brochure supplement provides information about Michael D. Patterson that supplements Mengis Capital Management, Inc.'s brochure. You should have received a copy of that brochure. Please contact Jeff Mengis if you did not receive Mengis Capital Management, Inc.'s brochure or if you have any questions about the contents of this supplement.

Additional information about Mr. Patterson is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## Item 2 – Educational Background And Business Experience

**Michael D. Patterson**  
**Research/Portfolio Manager**

Year of Birth:

1980

Education:

Villanova University  
September 2009-present

B.A. Political Science, 2002

Mengis Capital Management, Inc. – Research/Portfolio  
Manager

October 2007-September 2009

Mengis Capital Management, Inc. – Operations Manager

March 2005-October 2007

HAP International, Inc. – General Manager

June 2002-March 2005

Office of U.S. Senator Evan Bayh – Legislative  
Correspondent

Business:

September 2009-present

Mengis Capital Management, Inc. – Research/Portfolio  
Manager

October 2007-September 2009

Mengis Capital Management, Inc. – Operations Manager

March 2005-October 2007

HAP International, Inc. – General Manager

June 2002-March 2005

Office of U.S. Senator Evan Bayh – Legislative  
Correspondent

## Item 3 – Disciplinary Information

We do not have any legal or other disciplinary item to report to you. We are obligated to disclose any disciplinary event that would be material to you when evaluating Mr. Patterson.

## Item 4 – Other Business Activities

Outside of this work with the firm, Mr. Patterson is not actively engaged in any investment-related business or occupation, nor is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant ("FCM"), commodity pool operator ("CPO"), commodity trading advisor ("CTA"), or an associated person of an FCM, CPO, or CTA. Furthermore, Mr. Patterson is not engaged in any other business activity or activities that provide a substantial source of his income or involve a substantial amount of his time.

## Item 5 – Additional Compensation

No one who is not a client of our firm provides an economic benefit to Mr. Patterson in exchange for his advisory services.

## **Item 6 – Supervision**

As Research/Portfolio Manager of Mengis Capital Management, Inc., Mr. Patterson is an employee of the firm providing personal investment advice to our clients and registered as the firm's investment adviser representative. We supervise our employees who advise clients, and we monitor the investment advice they give. Mr. Patterson, along with other employees of our firm, must comply with our Code of Ethics and Compliance Manual and must follow the process that allows us to ensure that our client accounts are invested consistently within the parameters set in accordance with the firm's policies and procedures. Mr. Patterson's clients' account statements are reviewed for compliance with those parameters.

In addition, Mr. Patterson's personal accounts and activities are reviewed by:

Cynthia M. Aschbacher  
Chief Compliance Officer and Portfolio Manager  
One S.W. Columbia, Suite 780, Portland, OR 97258  
(503) 916-0776