



**Small Cap. Research Report / Buy Recommendation**  
**1<sup>st</sup> Updated Report**  
November 1st, 2012

**Probe Manufacturing, Inc.**  
**(OTC: PMFI)**

**Corporate Information**

Probe Manufacturing, Inc.  
17475 Gillette Avenue  
Irvine, Ca. 92614  
Office: (949)-273-4990  
<http://www.probeglobal.com>

**Market Information**

<b>Ticker Symbol:</b>	PMFI
<b>Exchange:</b>	OTC QB
<b>Recent Price:</b>	\$0.0085
<b>Shares Outstanding:</b>	198,319,056
<b>Estimated Float:</b>	55,850,000
<b>Average Daily Volume</b>	79,918
<b>Market Capitalization:</b>	\$1.74Million

**Opinion & Recommendation:**

Sterling Investment Services is reiterating its Buy Recommendation on the shares of Probe Manufacturing, Inc., an 18 year old company that provides full service design and manufacturing services to electronic equipment manufactures.

We initiated coverage on Probe Manufacturing ("PMFI") on August 9, 2011, with the price of Probe's common stock at \$0.0061 per share. A copy of that report may be found on our web site at [www.sterlinginvestments.com/research/pmfi/pmfi08-09-11.htm](http://www.sterlinginvestments.com/research/pmfi/pmfi08-09-11.htm). We then updated our coverage with a "Buy Rating" on September 27<sup>th</sup>, 2011, with the price of Probe's common stock at \$0.0062 per share. A copy of that report may be found on our web site at: <http://www.sterlinginvestments.com/research/pmfi/pmfi09-27-11.htm> Since then the company has shown a considerable amount of growth in its sales and earnings. PMFI has seen an approximately 33% increase in the price of common stock as the price has risen from \$0.0062 to approximately \$0.0083 per share.

We are considering the shares of Probe Manufacturing to be suitable at the current price levels to the addition of portfolios as a speculative component; and as a result we are placing a speculative buy recommendation on the shares of Probe Manufacturing.

**Company Description:**

Probe Manufacturing provides a range of engineering, manufacturing and business services to companies who design and market electronic products, Original Equipment Manufacturers (OEM). The company's revenue is generated from sales of services primarily to customers in the medical



device, aerospace, automotive, industrial and instrumentation product industries. The services the company provides are commonly referred to as Electronics Manufacturing Services (EMS). Their offerings include new product introduction, collaborative design, procurement and materials management, product manufacturing, product warranty repair, and end-of-life support.

**Products and Services:**

The company's primary products and services are:

Engineering. Probe offers computer assisted engineering, design, and engineering for manufacturability, circuit board layout and test development. The company also coordinates industrial design and tooling for product manufacturing.

Supply Chain Management. Supply chain management consists of the planning, purchasing, expediting and warehousing of components and materials.

Assembly and Manufacturing. The company's manufacturing operations include printed circuit board assembly, sub-system assembly, box build and system integration, the process of integrating sub-systems and downloading software before producing a fully configured product.

Testing. The company offer's computer-aided, in-circuit testing of assembled printed circuit boards, which contributes significantly to its ability to deliver high-quality products on a consistent basis. The company's test capabilities include manufacturing defect analysis, in-circuit tests to test the circuitry of the board, and functional tests to confirm that the board or assembly operates in accordance with its final design and manufacturing specifications

Final System Assembly and Test. The company assembles systems to a specific customer order and builds to standard configurations. The complex, finished products produced typically require extensive test protocols. The company's test services include in-circuit testing, functional and environmental tests.

Distribution. Probe Manufacturing offers our customers flexible, just-in-time delivery programs allowing product shipments to be closely coordinated with customers' inventory and consumption requirements. The company has the ability to ship products directly into customers' distribution channels or directly to the end-user.

**Recent Developments:**

On August 30<sup>th</sup>, 2012 Probe Manufacturing presented at the Southern California Investors Conference at the Marriott Hotel in Newport Beach, California. (1)

On August 14<sup>th</sup>, 2012 Probe Manufacturing filed its 2<sup>nd</sup> quarter report, a form 10-Q, with the Securities Exchange Commission (SEC). In reviewing the 10-Q Probe reported impressive sales gains for the six months ended June 30<sup>th</sup>, 2012. Sales in the 6 month period were \$2,889,153 compared to \$2,070,625 in the year ago period. This is an increase of approximately \$818,528 or approximately 40%. (2)



Income from operations totaled \$181,542 for the six months ended June 30<sup>th</sup>, 2012 compared to \$100,793 for the six months ended June 30<sup>th</sup>, 2011, an increase of approximately \$80,749 or approximately 79%.

On April 9<sup>th</sup>, 2012 Probe Manufacturing filed its annual report for the year ended December 31<sup>st</sup>, 2011, a Form 10-K, with the Securities Exchange Commission (SEC). In reviewing the 10-K Probe reported impressive sales and income gains for the year. Sales for the year increased to \$4,549,798 compared to \$2,799,935 in the prior year. This is an increase of approximately \$1,759,863 or approximately 63%. Operating Income for the year increased to \$228,720 compared to \$67,819 in the prior year, which is an increase of \$160,901 or approximately **237%**. (3)

**Management:**

The senior management of the company is comprised of the following individuals:

**Kambiz Mahdi: Chief Executive Officer, Director.** Mr. Mahdi is the co-founder and a member of the Board of Directors of the company. Mr. Mahdi was the Technical Sales Manager for six years with Future Electronics, a billion dollar electronics distributor. While at Future Electronics, Mr. Mahdi developed technical management leadership and management tools for their highest technology customers and applications. Mr. Mahdi has a BS degree in Electrical Engineering.

**John Benett: Chief Financial Officer.** Mr. Benett has been with the company for 4 years. Mr. Bennett joined the company as the controller and was promoted to the Chief financial officer in 2007. Mr. Bennett was formerly with Aim Technologies, Inc. for 8 years as the Chief financial officer and previously with Electritek, Inc for 10 years as the Chief financial officer. Mr. Bennett has a Bachelors of Science in accounting from Mesa College and a Masters of Science in Finance from the University of Colorado.

**Shervin Talieh: Director.** Mr. Talieh has over 17 years of hands-on experience building and growing organizations that provide solutions to clients in various sectors. Mr. Talieh started his career by successfully building, growing and selling his consulting startup, Index Data. Most recently, Mr. Talieh is the founder and CEO of Drumbi, an Internet technology startup focused on data and voice synchronization. At Drumbi, he guides the company's strategy, fund-raising, and operations. Prior to Drumbi, Mr. Talieh served at Vice President, Business Development for Goldeneye Solutions, a SaaS

**Robert Young: Director:** Prior to joining the company's board of directors, Mr. Young was Director of Mobile Services for Boeing Satellite Systems, Inc. ("BSS"), the world's largest manufacturer of commercial satellites, where he was responsible for developing communication and navigation services for governmental and commercial clients. Prior to joining BSS, Mr. Young was the CFO and Chief of Business Operations for a joint venture between Hughes Electronics, General Motors and Delco Electronics. Previously, Mr. Young was assigned to the Hughes Electronics Corporate Office where he was responsible for mergers and acquisitions, identifying and developing foreign offset programs and served as the Hughes Chief Economist. Mr. Young currently sits on the



board of Kinecta Federal Credit Union, which is the 9th largest credit union in the United States (having previously served as Kinecta’s Chairman of the board of directors from 2007-2009). Mr. Young received his B.S. degree from the San Diego State University and an M.B.A. from Loyola Marymount University.

**Ralph Adams: Special Advisor to the Board of Directors.** Mr. Adams is the owner of Capital Management Company. He is currently the CEO of American Steel. He has successfully completed 11 mergers and sold 12 companies for stockholders.

**Financial Highlights:**

	2 <sup>nd</sup> Quarter		2012 2011	2012 2011	1st Half		2012 2011	2012 2011
	2012	2011			(%) Change	(%) Change		
<b>Sales</b>	\$1,603,285	1,164,312	37%	2,889,153	2,070,625	40%		
<b>Cost of Goods Sold</b>	1,143,532	821,584		2,064,648	1,487,083			
<b>Gross Profit</b>	459,753	342,728	34%	824,505	583,542	41%		
<b>Operating Income</b>	\$124,487	\$59,688	109%	\$181,542	\$100,793	79%		

**Industry:**

The EMS industry is large, competitive, diverse, and is serviced by many companies, including several that have achieved significant market share. Historically, the EMS industry has experienced significant change and growth as an increasing number of companies elected to outsource some or all of their design, manufacturing, and distribution requirements. We believe that growth in the EMS industry will be driven largely by the needs of OEMs to respond to rapidly changing markets and technologies and to reduce product costs. Additionally, we believe that there are significant opportunities for EMS providers to win additional business from OEMs in certain markets or industry segments that have yet to substantially utilize EMS providers.

**Comparable Companies:**

	Probe Man. (PMFI)	CTS Corp. (CTS)	RF Indust. (RFIL)	Sanmina- SCI (SANM)	Sparton Corp. (SPA)	Comparable Average
<b>Share Price</b>	\$0.0088	\$10.66	\$4.22	\$8.75	\$12.58	N/A
<b>Market Cap.</b>	\$1.74 M	\$342 M	\$29.20 M	\$721 M	\$127 M	N/A
<b>Revenue</b>	\$5.37 M	\$591 M	\$25.66 M	\$6.21 B	\$224 M	N/A
<b>Price/Earnings</b>	8.8	20.12	23.2	21.64	13.51	19.6
<b>Price/Sales</b>	0.32	0.57	1.16	0.12	0.57	0.61



**Our Analysis:**

We feel that Probe Manufacturing, Inc. ‘PMFI’ presents an interesting opportunity. Since the publication of our initial research report, they have reported positive 2<sup>nd</sup> Quarter results. We feel the Company’s restructuring efforts are continuing to show results. Our research continues to indicate that the EMS industry is expected to show solid growth for the foreseeable future. We consider this to be a favorable environment for the company.

We have endeavored to find what we believe are reasonable comparable companies to Probe Manufacturing. Our research leads us to believe that the companies above are reflective of the overall electronics manufacturing services industry. If the shares of Probe Manufacturing were to trade at comparable valuation ratios as those of the comparable companies listed above, then it would not be unrealistic to expect a reasonable amount of price appreciation from the current price levels of Probe’s common stock.

The shares of Probe Manufacturing are currently traded on the Pink Sheets QB portion of the Over The Counter (OTC) market. The company is fully reporting with the Securities Exchange Commission, and has had 11 consecutive profitable quarters. It is our opinion that the company currently qualifies to upgrade its listing to the Bulletin Board on the Over the Counter market. Successfully doing so could improve the liquidity in the company’s shares and its overall valuation.

We are considering the shares of Probe Manufacturing to be suitable at the current price levels to the addition of portfolios as a speculative component; and as a result we are willing to place a speculative buy recommendation on the shares of Probe Manufacturing.



**Endnotes:**

1. Yahoo Finance. Probe Manufacturing Press Release dated August 28<sup>th</sup>, 2012. <http://finance.yahoo.com/news/probe-manufacturing-inc-present-southern-161900181.html>
2. Probe Manufacturing 10-Q for the quarter ended June 30<sup>th</sup>, 2012 filed with the SEC on August 14<sup>th</sup>, 2012. [http://www.sec.gov/Archives/edgar/data/1329606/000150441212000141/probeq22012\\_10q.htm](http://www.sec.gov/Archives/edgar/data/1329606/000150441212000141/probeq22012_10q.htm)
3. Probe Manufacturing 10-K for the year ended December 31, 2011 filed with the SEC on April 9<sup>th</sup>, 2012 [http://www.sec.gov/Archives/edgar/data/1329606/000150441212000032/probe10k2011\\_10k.htm](http://www.sec.gov/Archives/edgar/data/1329606/000150441212000032/probe10k2011_10k.htm)

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