



## Small Cap. Research Report / Initiation of Coverage

August 9<sup>th</sup>, 2011

### Probe Manufacturing, Inc.

#### Corporate Information

Probe Manufacturing, Inc.  
17475 Gillette Avenue  
Irvine, Ca. 92614  
Office: (949)-206-6868  
<http://www.probe.ws>

#### Market Information

<b>Ticker Symbol:</b>	PMFI
<b>Exchange:</b>	OTC QB
<b>Recent Price:</b>	\$0.0061
<b>Shares Outstanding:</b>	184,600,000
<b>Estimated Float:</b>	24,590,000
<b>Average Daily Volume</b>	181,452
<b>Market Capitalization:</b>	\$1.13 Million

#### Opinion & Recommendation:

Sterling Investment Services is initiating coverage on the shares of Probe Manufacturing, Inc., a 17 year old company that provides full service design and manufacturing services to electronic equipment manufacturers. The company services the Medical, Defense/Aerospace, Automotive, Industrial, and Instrumentation industries.

The company implemented a turnaround plan in the 4<sup>th</sup> quarter of 2009 that included the return of former CEO Kambiz Mahdi to the company. During the 1<sup>st</sup> half of 2010 the company was able to implement significant cost reductions and improvements to its operations.<sup>1</sup>

It is our expectations that Probe Manufacturing should be reporting its 2<sup>nd</sup> quarter earnings by August 15<sup>th</sup>. Ahead of the expected 2<sup>nd</sup> quarter earnings announcement we have decided to profile the company. We consider the purchase of shares of Probe Manufacturing at these price levels to be suitable for accounts with an aggressive or speculative component to their portfolio mix.

#### Company Description:

Probe Manufacturing provide 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 our services primarily to customers in the medical device, aerospace, automotive, industrial and instrumentation product manufacturers. They provide their domestic customers with low cost, low risk, flexible and high quality manufacturing services. 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.<sup>2</sup>

**Industry:**

The EMS industry is large, competitive and 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 the EMS industry is firmly recovering from the last macroeconomic downturn and growth of the overall EMS industry for calendar 2010 is estimated to have been greater than 20%. 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.

**Products and Services:**

The company's primary products and services are as follows:<sup>2</sup>

Engineering. Probe Manufacturing offer 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, subsystem 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 our 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 offer 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:**

Probe Manufacturing recently announced that new orders had increased 130% year-to-date from \$1.3 million to \$3.0 million, with total open orders at \$2.6 million.<sup>3</sup> On May 17th, Probe Manufacturing reported an 86% growth in its 1<sup>st</sup> quarter revenue and an increase in net profits of 33%.<sup>4</sup> Additionally the company is now forecasting 2011 total revenue of approximately \$5 million and 2012 revenue of \$9 million.<sup>1</sup>

**Management:**

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

**Kambiz Mahdi: Chief Executive Officer, Director.** Mr. Madbi is the co-founder and a member of our 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 University of Colorado.

**Linwood Goddard: VP of Quality and Development.** Mr. Goddard has over 25 years of experience in the electronic manufacturing industry.

**Shervin Talieh: Director.** Mr. Talieh has over 17 years experience in building and growing organizations that provide solutions to clients in various sectors. Mr. Talieh is also the founder and CEO of Drumbi, an internet startup focused on data and voice synchronization.

**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:**

	1 <sup>st</sup> Quarter		(%)	Year End Results		(%)
	2011	2010	Change	2010	2009	Change
<b>Sales</b>	\$906,000	\$487,000	88%	\$2.7 Mill	\$2.1 Mill	28%
<b>Cost of Goods Sold</b>	647,500	336,000	101%	\$2.0 Mill	\$1.6 Mill	25%
<b>Gross Profit</b>	\$258,500	\$121,000	113%	\$796,000	\$473,000	68%
<b>Net Income</b>	\$ 25,000	\$ 16,000	56%	\$248,000	\$ 27,500	801%



### **Our Analysis:**

We feel that Probe Manufacturing, Inc. 'PMFI' presents an interesting opportunity. Our initial research indicates that the company's restructuring efforts are beginning to show results. Additionally it appears that the company is seeing success in increasing its sales and order book. We view both of these as positive results. Our research further indicates 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.

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 current in its filings at the time of the writing of this report. 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.

The company currently has just under 200 million shares issued and outstanding, we would like to see the company consider a 1 for 10 reverse split of its common shares. However, we consider this to be a cosmetic change for the time being, and it does not have any impact on our overall opinion of the company. We consider the shares of Probe Manufacturing to suitable consideration for portfolios with an aggressive or speculative component.

### **Endnotes:**

1. Probe Manufacturing Form 8-K filed with the SEC July 25<sup>th</sup>, 2011. Page # 10.  
<http://sec.gov/Archives/edgar/data/1329606/000150441211000024/0001504412-11-000024-index.htm>
2. Probe Manufacturing 10-K filed with the SEC March 31<sup>st</sup>, 2011.  
<http://sec.gov/Archives/edgar/data/1329606/000150441211000008/0001504412-11-000008-index.htm>
3. Probe Manufacturing. Press Release June 21, 2011. "Probe Manufacturing Secures \$225,000 Medical Device Manufacturing Contract and Exceeds \$2.6 Million in Open Orders"  
<http://finance.yahoo.com/news/Probe-Manufacturing-Secures-bw-262606087.html?x=0&.v=1>
4. Probe Manufacturing. Press Release May 17, 2011. "Probe Manufacturing Reports 86% Revenue Growth for its Fiscal First Quarter 2011 Results"  
<http://finance.yahoo.com/news/Probe-Manufacturing-Reports-bw-711968735.html?x=0&.v=1>

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