



Small Cap. Research Report / Buy Recommendation

September 27th, 2011

Probe Manufacturing, Inc.

Corporate Information

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

Market Information

Ticker Symbol:	PMFI
Exchange:	OTC QB
Recent Price:	\$0.0062
Shares Outstanding:	195,888,320
Estimated Float:	35,840,000
Average Daily Volume	181,452
Market Capitalization:	\$1.13 Million

Opinion & Recommendation:

Sterling Investment Services is initiating a Buy Recommendation on the shares of Probe Manufacturing, Inc., a 17 year old company that provides full service design and manufacturing services to electronic equipment manufactures.

We initiated coverage on Probe Manufacturing on August 9th. A copy of that report may be found on our web site at www.sterlinginvestments.com/research/pmfi/pmfi08-09-11.htm Since then the company has announced its second quarter earnings and an increase in backlog of orders. We have had a chance to review Probe's quarterly report filed with the SEC, and have decided to up our rating on Probe to a Buy Recommendation.

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.

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.

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.

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, 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 the 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 September 15th, 2011 Probe Manufacturing announced it had been approved to build cable assemblies for the TECO-Westinghouse Motor Company Wind Turbine Assembly Program. (1)

On August 15th, 2011 Probe Manufacturing filed its 2nd 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 30th, 2011. Sales in the 6 month period were \$2,070,625



compared to \$1,241,676 in the year ago period. This is an increase of approximately \$828,949 or approximately 67%. (2)

Income from operations totaled \$100,793 for the six months ended June 30th, 2011 compared to \$41,032 for the six months ended June 30th, 2010, an increase of approximately \$59,761 or approximately 145%. Overall net income was down slightly on the year, this is primarily due to the company receiving a substantial credit towards its rent expense. We consider the operating income to be the more important of the two numbers and feel the company is moving in the right direction.

We have reviewed the Balance Sheet and Statement of Cashflows contained within the 10-Q and find them in line with what we would expect with a growing and profitable company such as Probe Manufacturing.

Additionally it should be noted that Probe's days sales backlog increase to 226 days from 140 days. We view this as a positive sign in relationship to the Company's increasing sales.

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 University of Colorado.

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:

	2 nd Quarter			1st Half		
	2011	2010	(%) Change	2011	2010	(%) Change
Sales	\$1,164,312	754,170	54%	2,070,625	1,241,676	67%
Cost of Goods Sold	821,584	567,670		1,487,083	903,820	
Gross Profit	342,728	186,500	83%	583,542	337,856	73%
Operating Income	\$59,668	\$24,134	147%	\$100,793	\$41,032	145%

Our Analysis:

We feel that Probe Manufacturing, Inc. ‘PMFI’ presents an interesting opportunity. Since the publication of our initial research report Probe has reported positive 2nd 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.

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 seven 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 September 15th, 2011. <http://finance.yahoo.com/news/TECO-Westinghouse-Approves-bw-3063546574.html?x=0&v=1>
2. Probe Manufacturing 10-Q for the quarter ended June 30th, 2011 filed with the SEC on August 15th, 2011. <http://sec.gov/Archives/edgar/data/1329606/000150441211000059/probeq22011.htm>

Disclaimer: The Sterling Investments series of newsletters is produced by Sterling Investment Services, Inc. (www.sterlinginvestments.com) All information used in the production of this report has been obtained from sources believed to be reliable and accurate. Sterling Investment Services does not warrant or assume any liability for inaccuracy of the information used to produce our publications. To receive further information on these services please visit our web page at: www.sterlinginvestments.com If you would like to contact us our fax # is (404)-816-8830. Email address is: enelson@sterlinginvestments.com Sterling Investment Services may hold positions in the securities recommended or may be providing consulting services to the companies mentioned within this report. Sterling Investment Services, Inc. has not been paid any fee for the production of this report. However in the future, Sterling Investment Services may charge fees for the production of follow up reports or services.