

Coverage Initiation Report:

Solutions Group, Inc. (OTC: SOLU)
Industry: Engineering Process Outsourcing

May 19, 2009

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Company snapshot

(as of May 18, 2009 unless otherwise noted)

Share Price	\$.04 (closing price on 05/18/09)
Ticker Symbol	SOLU.PK
Primary Exchange	Pinksheets
52-week High	\$.08 (12-24-08)
52-week Low	\$.005
Shares Outstanding	302,000,000 (as of 05-19-09)
2009 EpS (estimated)	\$.0015
2009 Q1 EpS (unaudited)	\$.00004
Industry P/E Ratio	30.1
Market Capitalization	\$12.08 Million

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Introduction

About This Report

The following report is an analysis by Source Advisors, Inc. ("SAI") of Solutions Group, Inc. and the global market for engineering services outsourcing, its trends, and outlook. It is not an assessment of any company itself, its prospects, or its condition. It is not intended as investment advice or an offer to buy or sell securities. It is an overview of the company and some of the trends and past performance of the factors that are involved in this market, including demand factors, improving technology, and ancillary industries that could affect performance, and is therefore not an endorsement of any company's ability to conduct business in these sectors. Source Advisors has conducted research into the historical performance of the market sectors in this market. SAI has relied on the Company itself for information regarding its operations and direction, and SAI has also relied upon independent information sources as well as industry associations, periodicals, and publications for information on market conditions and analysis. Utilizing various sources of data, Source Advisors has produced the following assessment of the global market for engineering services outsourcing, taking into account considerations of emerging technology, factors affecting demand, and conditions that affect transactional processes.

Company Highlights

- Sales in excess of \$600k for Q1 2009
- Projected sales for 2009 from \$3.7 Million to \$7 Million
- Over 65 current employees
- Offices in U.S., Mexico, and Romania
- Nearly double the customer requests for new projects compared to 2008
- Client list includes Fortune 500 companies such as Agilent, Freescale and Qualcomm

Market Highlights

- Offshore outsourcing business worth approximately \$50 Billion annually (Source: New York Times)
- Outsourcing by the financial services industry is expected to increase by as much as 40 to 45 times from 2008 to 2013 (Source: Business Finance Week)
- Business Process Outsourcing grew at an approximate annual growth rate of 35% from 2005 to 2008 (Source: National Post)
- Offshore outsourcing was growing at a 29% annual growth rate until the second half of 2008, and is still expected to continue to grow at a double-digit rate in 2009 (Source: New York Times)
- Worldwide Business Process Outsourcing revenues estimated between \$26 Billion and \$29 Billion in 2008 (Source: National Post)
- Knowledge Process Outsourcing expected to grow at a compounded annual growth rate of 46% and be worth \$17 Billion by 2010 (Source: Sourcingmag.com)
- Engineering Services Outsourcing is predicted to grow to \$40 Billion by 2020 (Source: Toostep.com)

Company Overview

Solutions Group, Inc. (OTC: SOLU) is a U.S.-based provider of Managed Engineering Services to Fortune 500 companies and other providers of electronic products. SGI was founded by industry leaders who drew from their executive experience in top domestic and international engineering and contract manufacturing firms to develop a unique strategic solution to address current market needs. SGI has built up a core of engineering talent with key design capabilities including electrical engineering, component engineering, printed circuit board design, mechanical design and software development. The Company's engineering centers located in the United States, Mexico and

Romania are seamlessly integrated and work closely with the customer at the time of project launch through completion. As a result customers are able to reduce their product development investment by up to 50% without sacrificing product quality or time-to-market schedules.

Unlike many small-caps, Solutions Group, Inc. is currently generating solid revenues through its Managed Engineering Services. With two decades of operations in its field, the Company has developed a network of business relationships and affiliations that provide a strong foundation for success and expansion. The Company generated revenues in excess of \$600,000 in Q1 2009 with positive earnings. Current sales pipeline for Managed Engineering Services for the balance of 2009 indicates steady growth with an estimated range for the year between \$3,700,000 and \$7,000,000; not including Royalty Partnerships, Intellectual Property Commercialization or Acquisitions. SGI currently employs 65+ people and has a highly scalable business model of which a majority of the team is directly involved in some aspect of the revenue generation process. Based on estimates from the Company, revenue projections for the remainder of 2009 are extremely positive:

	Q2 '09	Q3 '09	Q4 '09
Revenue	620,000	750,000	1,000,000
OPEX	592,000	621,000	720,000
Pre-Tax	38,000	129,000	280,000

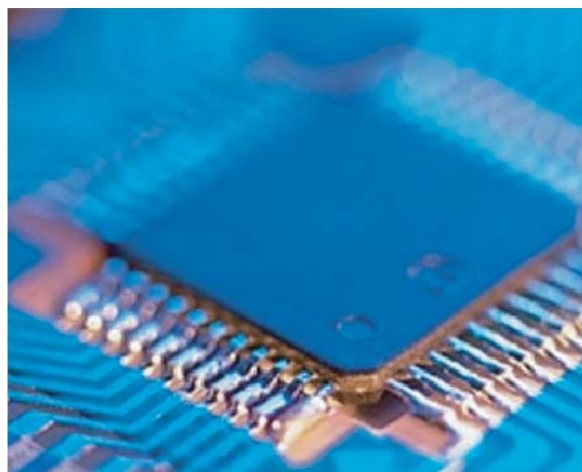
Solutions Group Revenue Projections, Q2-Q4 2009

As one can see, Solutions Group expects to be able to realize substantial revenue growth for the remainder of the year. According to the Company, inquiries for new service contracts have increased dramatically, and if these contracts are closed at a rate consistent with past performance, they should represent strong revenue increases for FY '09, forming the basis for the revenue projections above. In addition, due to the scalability of the Company's business model, operating expenses should remain relatively stable. As a result, further revenue increases should result in increased margins and enhanced profitability, barring unforeseen

circumstances. In any case, it is an encouraging sign to see the Company conducting profitable operations already so early in the business cycle.

Solutions Group business model is highly scalable and includes a multi-pronged approach to achieve rapid financial growth. This includes Managed Engineering Services, commercialization of the Company's own Intellectual Property, Royalty Partnerships with leading OEMs and Acquisitions. SGI seamlessly integrates its regional design centers in North America and Europe with its lower cost off-shore engineering locations. As a result, the Company's customers enjoy a significantly reduced product development cost without sacrificing quality or time-to-market. In the midst of global economic insecurity, SGI is well positioned to support those companies that seek to reduce operating costs while remaining competitive. The Company's market is global in nature, dynamic and includes any activity related to the development of electronics products.

SGI's rapidly expanding customer base includes many premier Fortune 500 customers including Agilent, Freescale and Qualcomm. Relationships with this customer type are long term and include both design services and some integration with their internal engineering groups. The Company's customer base is also very diverse as its services are also well positioned for small to mid-range OEMs and early stage venture funded companies. Solutions Group's value propositions are very attractive for any size business throughout their product life cycle.



The Market

Business Process Outsourcing (BPO)

The following report is an analysis by Source AdBusiness Process Outsourcing (BPO) is a type of outsourcing involving operations of particular business functions, or processes, to a third party. Traditionally, this has involved the outsourcing of functions that do not require extensive training and/or expertise (customer service, call centers, etc.) or functions that demand time that detracts from the core operations, but that can be consolidated and scaled in such a way as to create large-scale, specialized third-party operations (payroll services, accounting, human resources, etc.). Because of the nature of these processes, much BPO is very close in nature to information technology services.

The advantages of BPO are numerous. Companies can enhance flexibility by shifting non-essential or administrative operations from employees whose effectiveness can be enhanced by allowing them to function on core business functions. In addition, BPO frequently provides cost benefits by employing non-specialized labor for functions that do not require extensive training or expertise. In addition, many companies outsource business processes overseas to emerging countries in which wages are lower with large, well-educated labor forces, such as India and the Philippines. In many of these countries, jobs that are typically served by BPO are frequently regarded as high-status occupations, whereas in some of the more developed nations they can often be characterized as menial, low-status occupations. As a result, BPO can often attract talented and well-educated workers overseas.

A number of substantial market drivers are propelling this market forward, and give every indication that the overall outlook for the industry is very favorable. These factors include the tremendous level of improvement in IT and telecommunications, constant pressure on

companies to reduce costs, and the inability of businesses to automate a large number of essential business processes. As IT and telecommunications infrastructure has made giant strides in sophistication and efficiency, it has become possible to transfer data virtually anywhere at minimal cost, allowing unprecedented ease of communication across the globe. Of course, it is not a new development to see businesses attempting to reduce costs, but as IT and telecommunications improvements have facilitated the ability to outsource business processes, BPO has boomed, with every indication of continuing to grow at a rapid pace. The global market size for BPO is estimated to be around \$382.5 Billion in 2004, and robust growth is projected in the BPO industry with more and more companies taking advantage of the flexibility and cost-effective benefits of BPO all over

the world. The BPO market is expected to reach \$641.2 billion by 2009 with a Cumulative Annual Growth Rate (CAGR) of 10.9 percent from 2005 to 2009. (Source: IDC).

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In addition, continued concerns over the state of the global economy and worries about stability may in fact enhance the attraction of BPO. According to a recent study by the Everett Research Institute, the global recession appears likely to accelerate global sourcing adoption (Source: *Business and Finance Week*). Also, outsourcing has begun to find more acceptance in many technical industries that were formerly mostly rejected by companies who considered the level of expertise required to perform the job functions as a prohibitive barrier to outsourcing. More and more, the automotive, pharmaceutical, and engineering industries are becoming hotspots for outsourcing (Source: *Financial Times*). This has further accelerated the growth of the industry in recent years. For instance, the states of New Mexico, Nebraska, and Mississippi have outsourced their unemployment and taxation payment processes, and according to some estimates, the BPO market has seen an annual growth rate of approximately 35% from 2005 to 2008, and is estimated to generate worldwide revenues of between \$26 Billion and \$29 Billion in 2008 (Source: *National Post*).

The BPO market has seen an annual growth rate of approximately 35% from 2005 to 2008

Of course, growing economic uncertainty has had a seemingly universal effect on virtually every single industry, and BPO has not been immune. There are some trends in the industry that bear watching. For example, the International Association of Outsourcing Professionals (IAOP) expects several trends to emerge in at least the short term. For one, there is the possibility that the governments of developed nations will adopt legislation aimed at restricting the spread of offshore outsourcing, prompted by concerns over job losses in their home countries. However, the planned initiatives of the Obama administration and increased government spending on infrastructure projects may still encourage growth in domestic outsourcing, especially for construction, real estate and technology (Source: *Outsourcing Insights*). Also, global uncertainty will almost assuredly increase companies' desire to lower their spending, seek greater flexibility, and demand higher value for their dollars. This will likely result in shorter outsourcing contracts and higher requirements for outsourcing skills and knowledge.

Of course, BPO is not without its detractors. Various estimates suggest that anywhere between 17% and 53% of customers have not realized value/return on investment from offshore outsourcing (Source: *CIO*). Others cite instances where companies were forced to perform costly rework on outsourced projects. However, such examples are largely anecdotal, nor are they sufficient to explain the underlying problems when they do occur. In fact, a recent KPMG study, based on responses from more than 650 organizations from 32 countries, suggests that many of the problems that are commonly blamed on outsourcing are attributable to project management rather than the outsourced labor. For one, the study found that 87% of respondents believed that criticisms of outsourcing were grossly oversimplified. In addition, the study also found that a majority of both customers and service providers were in agreement that problems encountered during outsourcing are related to those involved in managing the project (Source: *KPMG*).

Knowledge Process Outsourcing (KPO)

One of the most rapidly growing sub-sectors of BPO is Knowledge Process Outsourcing (KPO). KPO involves knowledge-related and information-related work carried out by workers in a different company

or by a subsidiary of the same organization, which may be in the same country or in an offshore location to save cost. Unlike the outsourcing of manufacturing, this typically involves high-value work carried out by highly skilled staff. KPO firms, in addition to providing expertise in the processes themselves, often make many low level business decisions-typically those that are easily undone if they conflict with higher-level business plans. For a number of reasons, companies were reluctant to outsource the types of processes that are typical of KPO. Certainly, some of this reluctance was likely due to a perception or bias that the education and skill levels of outsourced labor, particularly those overseas, were insufficient to be able to accomplish the requisite job functions effectively.

KPO is projected to grow at a compounded annual growth rate of 46% and reach a value of \$17 Billion by 2010

Lately, though, companies have begun to recognize the advantages of

KPO, and it has grown at an extremely rapid pace in recent years. According to a study conducted by the National Association of Software and Services Companies, KPO is projected to grow at a compounded annual growth rate of 46% and reach a value of \$17 Billion by 2010 (Source: *Sourcingsmag.com*). According to this same report, KPO is expected to employ more than 250,000 professionals by 2010. Also, while low-end outsourcing services are projected to experience a solid CAGR of 26% by 2010, the global KPO market is expected to grow by a CAGR of 46% by 2010 (Source: *Buzzle.com*).

Engineering Services Outsourcing (ESO)

One of the most significant developments that has emerged as part of this larger trend is the growth in Engineering Services Outsourcing. With increasing levels of education abroad combined with falling enrollment in engineering and the sciences in the United States, fewer and fewer qualified workers are entering the workforce in the U.S. Full-time undergraduate engineering enrollment has steadily fallen from its peak in the early 1980s (Source: *Aviation Week*). At the same time, enrollment in these programs continues to rise in many other countries of the world. As a result, either by choice or by necessity, companies are discovering that it is

a realistic option to outsource many of their engineering needs. For example, according to some reports, as much as 80% of the Boeing 787 is outsourced (Source: *Aviation Week*).

According to Frost and Sullivan, the Engineering Services Outsourcing market is forecast to reach a value of \$40 Billion by 2015 (Source: *Business Wire*). Others are even more bullish. In a recent report by the National Association of Software and Service Companies compiled in conjunction with Booz Allen Hamilton, the total offshore engineering spend was expected to grow to between \$150 Billion and \$225 Billion by 2020. Through 2007, engineering design had been the fastest growing outsourcing sub-sector, with a 55% average growth rate over the previous three years (Source: *BusinessWorld*).

Recession Impact

Certainly, the recent economic downturn has the potential to derail many of these projections, but several considerations suggest that these trends may abate somewhat but should not be particularly adversely affected. According to industry analyst IBISWorld in their review of the engineering services industry, "Industry demand depends heavily on the level of construction activity. The government will use counter-cyclical spending to stimulate the economy with much of this to be focused on infrastructure (heavy construction). Meanwhile, private enterprise will scale back construction projects (building and industry) in the face of recession... The industry will benefit from increased

public spending focused on transport, water, sewer and other infrastructure as the government attempts to kick start the economy..." (Source: *IBISWorld*). As a result, the recession impact on this industry is expected to be minimal. Consequently, it appears likely that the recent growth in ESO is in a strong position relative to many other sectors.

Analysis

Engineering Process Outsourcing Sector

For most industries, the primary concern at the present time is that of the impact of the current global recession. By some estimates, the present economic downturn will result in as much as \$4 Trillion in lost output globally in 2009 (Source: *Associated Press*). According to the April 2009 economic forecast from the International Monetary Fund, global output is projected to decline 1.3% in

2009, the first such decline in more than sixty years. Compared with a normal global growth

By some estimates, the present economic downturn will result in as much as \$4 Trillion in lost output globally in 2009

rate of approximately 4%, this decline could represent lost output totaling as much as \$3 Trillion or even \$4 Trillion in 2009 alone. U.S. Treasury Secretary Timothy Geithner was recently quoted as saying that, "Never before in modern times has so much of the world been simultaneously hit by a confluence of economic and financial turmoil such as we are now living through..." (Source: *Associated Press*).

For obvious reasons, companies are struggling to find ways to trim costs in the midst of such an economic environment. Those businesses that are organized and formed to offer services that facilitate reductions in costs without sacrificing productivity or work quality will understandably find themselves in a uniquely competitive position in this difficult economic climate. Keeping this in mind, the Engineering Services Outsourcing market exhibits several features that suggest that it will not only survive the recession relatively unscathed, but may even find that the global economic downturn may spur growth in this sector.

For one, engineering services depend greatly



As much as 80% of the Boeing 787 is outsourced
(Source: *Aviation Week*)

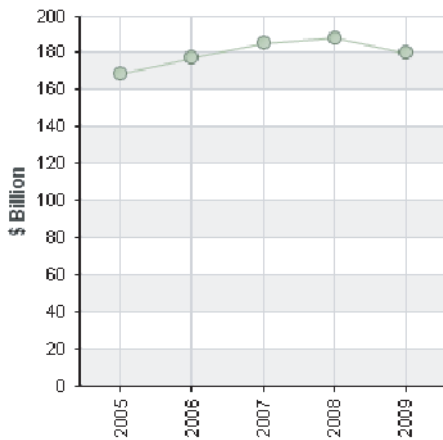
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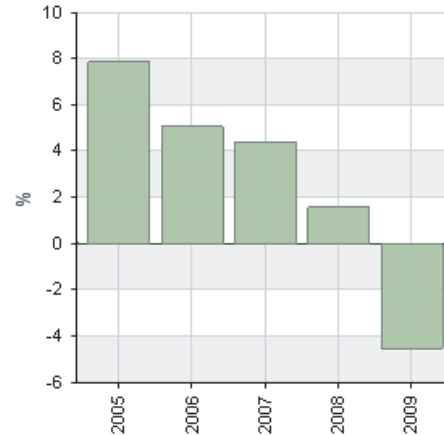
on construction levels. According to market research firm IBISWorld, "The principal activities of this industry are design services on construction, the physical environment and industrial processes. The industry derives approximately 55% of its revenue from the provision of design services to the construction sector (57.5% in the 2002 Economic Census)..." (Source: *IBISWorld*). In the U.S., engineering services revenues are expected to decline to approximately \$180 Billion in 2009, \$8.5 Billion less than the total from 2008 and \$5.5 Billion less than 2007, but still \$3.3 Billion more than the total from 2006, in inflation-adjusted prices. In addition, nearly 70% of construction design activity is on nonbuilding infrastructure projects such as bridges and pipelines (Source: *IBISWorld*). Such projects are precisely those that are expected to form a major part of the U.S. government's economic stimulus program. As a result, the overall engineering services industry should experience a minimal impact from the recession.



Total Estimated U.S. Revenue, Engineering Services, 2005-2009 (Source: *IBISWorld*)

As a result, given the expected federal spending on large-scale infrastructure projects as part of the overall economic stimulus program, revenue for the engineering services sector is expected to decline, but only marginally. Such minimal revenue declines, once contextualized within the larger economic situation, represent a comparatively positive outlook.

Secondly, trends within the larger outsourcing market suggest favorable conditions for engineering services outsourcing. Once limited to the use



Revenue Growth Rate in the U.S., Engineering Services, 2005-2009 (Source: *IBISWorld*)

of inexpensive, unskilled labor, outsourcing has rapidly expanded in recent years to include Knowledge Process Outsourcing, using skilled positions and educated labor. Not all efforts are successful, although many industry observers believe that many of the problems associated with Knowledge Process Outsourcing are frequently the result of mismanagement at the project

Through 2007, engineering design had been the fastest growing outsourcing sub-sector, with a 55% average growth rate over the previous three years

management level rather than deficiencies on the part of the outsourcing provider. As this phenomenon

gains wider acceptance by companies seeking to reduce labor costs, it is likely that the ability to integrate outsourced knowledge processes will improve, leading to more widespread adoption. Already, as much as 80% of the Boeing 787 is outsourced (Source: *Aviation Week*).

Consequently, the outlook for Engineering Services Outsourcing is positive. Through 2007, engineering design had been the fastest growing outsourcing sub-sector, with a 55% average growth rate over the previous three years (Source: *BusinessWorld*). We expect this trend to slow as a result of economic pressures, but do not anticipate that the growth trend will completely reverse itself. We therefore conclude that the recession impact on this industry will be minimal.

Solutions Group, Inc.

At the present time, Solutions Group does not have sufficient revenue history to be able to make an accurate valuation. The Company is still in the early stages of its business cycle, and therefore remains in a precarious position. However, SGI has already managed to develop a strong client base that has the potential to serve as a platform for solid growth. Without question, Solutions Group, Inc. has made impressive inroads into this market, and even at an early stage of development has shown itself capable of operating profitably. In the first quarter of 2009, the Company's list of clients included some of the largest and most prestigious names in their respective industries, including Fortune 500 companies. Among the list of clients are such industry leaders as Agilent, Freescale, Qualcomm, and others. Solutions Group provided services for several industries, including the satellite and semiconductor industries, as well as the military. As a result of its efforts, Solutions Group generated sales revenues of \$622,831 in the first quarter of 2009 alone, with a gross profit of \$461,304, and income before taxes of \$12,070.

What is particularly encouraging is the Company's sales pipeline that indicates significant reason for optimism for the remainder of the fiscal year. No doubt at least in part due to the widespread impact of the global economic recession, many companies are looking to trim their costs, and as detailed above, are looking to outsourcing, particularly in previously overlooked high-skill positions like engineering, in order to reduce their expenses. The Company currently updates its sales pipeline weekly. Consequently, the forecast remains timely and is very fluid from week to week. Typically from the time of receipt of purchase order, SGI will initiate billings to the customer within 1-2 weeks. SGI breaks up the pipeline of opportunities into 5 categories, as follows:

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1. LEVEL 5: Contact-SGI has identified the account as a potential customer and established some level of contact. However at this stage, no sales amounts are entered into the pipeline

2. LEVEL 4: Discussed Project- SGI has discussed specific projects to become involved in. No sales amounts are entered into the pipeline.

3. LEVEL 3: Identified Project- SGI has progressed in discussing specific projects with the customer including quotations, scope of work, timing ...etc. At this stage, sales amounts can be entered into the pipeline.

4. LEVEL 2: Committed to SGI- At this stage the customer has verbally committed to SGI to proceed with work. At this stage, sales amounts are entered into the pipeline.

5. LEVEL 1: PO in Hand- At this stage the customer has issued purchase orders to SGI. Customers will issue purchase orders for either individual projects or ongoing work over a longer period of time. SGI will enter the specific amounts into the pipeline based on purchase orders and any other pertinent information.

As of the time of this report, Solutions Group has a total of 106 unique contacts in various stages of the sales pipeline. The estimated sales pipeline value according to the Company is \$2.186 Million for the final three quarters of FY '09. Based on the typical close rate and the standard sales progression, Solutions Group projects continued revenue increases for the remainder of the year, culminating in an estimated \$1 Million in gross revenues in Q4 '09.

In addition, we do not expect the overall trend towards greater adoption of KPO and ESO to abate with economic recovery. Instead, it is our expectation that this trend, although perhaps accelerated by widespread economic woes, will continue for several reasons. First, as businesses become more comfortable with outsourcing tasks that require high levels of education and expertise, they will be more likely to continue to employ outsourced labor even once economic conditions improve. Second, with the increase in outsourcing documented above, businesses will become more familiar with the process, and therefore become

more efficient and effective in managing projects that involve contributions from outsourced labor. Third, as enrollment in engineering programs declines in the U.S. and grows in many other regions of the world, many firms in the U.S. may be compelled to increase their use of KPO and ESO by necessity. Finally, the main growth driver of KPO and ESO, namely the ability to reduce costs for clients, will not disappear as economic conditions improve.

Ultimately, we expect Knowledge Process Outsourcing and Engineering Services Outsourcing to experience strong relative growth in the short

and long terms. Consequently, these conditions will favor the firms that are able to meet the demands of this sector. At present, although Solutions Group is still in the early stages of development, it is well positioned to take advantage of the growth potential inherent in these sectors. With established bases of operations in Romania, Mexico, and the United States, the Company has created an infrastructure that is conducive to participating actively in the KPO and ESO sectors. In the final analysis, we feel that SGI exhibits many features that are decidedly positive in terms of its prospects for continued growth and profitability.

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