

REALITY REPORT

From the Front Lines

by Marc Jablon, President, Big Apple Consulting USA



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There's a lot of fear mongering going on – it sells newspapers and gets people's attention. Just don't let it get *to you*.

The times are uncertain for all of us; no one can predict how this economic crisis will play out over the coming year. What I *can* predict is three things that are *good news* for Big Apple and all of you – clients, shareholders, stock brokers and employees alike. We'll all come out of this together, having mutually benefited from:

[1] A significantly improved financial arena for investors – and the professionals who serve them – that includes:

- A whole new investment landscape and stricter government oversight and regulations that better prevent plagues of greed the likes of which had spread over the Street during the past 20 years;
- Better protection for investors – and taxpayers – from ever having to take the hit for the actions of unscrupulous people;
- Investment instruments whose long-term ramifications will be well researched and thought through; whose structure can be easily defined; and whose short and long-term risks understood by everyone;
- More and more investors who can tolerate some risk in their portfolios moving into the small cap markets – the only investment arena where huge payoffs are not only possible, they'll be happening with increasing frequency as the economy improves.

[2] A significantly more efficient Big Apple whose growth will have been driven by:

- The increasing numbers of small private businesses seeking Big Apple's superior services and expertise in taking companies public for the purposes of raising capital for operations and expansion, acquiring other companies, and/or creating exit strategies for their owners, angels and/or venture capitalists;
- The increasing numbers of small cap Pink Sheet

companies who come to us – and especially to our Management Solutions International (MSI) division – for its expertise and guidance in climbing higher with their Pink Sheets transparency ranking and even uplifting to the Bulletin Board to attract greater numbers of investors;

- A growing roster of client companies who've sought the full range of MSI services and expertise – including business, marketing, Web design and investor relations – in order to supplement their lean management teams;
- The increasing need of Pink Sheet and Bulletin Board companies to be heard above the cacophony on the Street so the financial media, stock brokers and their investors know about the opportunities our clients represent and invest in them.
- Growth of the Big Apple divisions – each in their own markets – as their strategic business plans for thriving in a recessionary economy start paying off (*see DIVISION NEWS in our December newsletter for their individual reports*).
- An excited, tight-knit, “can do” team of talented Big Apple people making it all happen, pushing their own envelopes and growing with the company.

[3] All the changes the American economy and investment landscape will be going through in 2009 will spawn (as such changes always do) vast opportunities for Big Apple to grow and prosper and for you – as an integral part of Big Apple – to do the same.

The Specter of Fear

Nothing robs a person of their energy, ability to focus and work hard and their ability to set goals and actually achieve them faster than fear. Once fear grips their soul, people freeze up, stop thinking for themselves, stop “doing” and stop growing.

We're just getting past two years of non-stop political fear mongering from both parties. Every time truth and reality would appear: Bam! The mud slinging and the twisting beyond recognition would

start. A lot of people bought into it because they couldn't clearly see anything else. And they are afraid. Very afraid. And they should be if their only solution to their problems is a wait and see attitude.

Maybe Big Brother will help you; the reality is that Big Brother should kick your ass! **We will not see a \$700 billion dollar bailout, so we need to pick ourselves up and make things happen. That's what America is all about.**

Each of us needs to shed any lingering fears and trust in ourselves and our abilities; with clear forethought to position ourselves to withstand this recession for as long as it lasts; to stand tall and at the ready to take on any challenges that come our way and to grow by having overcome them.

I told you I don't want fear to get to you and I meant it. That's why I'm taking the time and using my newsletter to write directly to each of you – from the heart and mind – and give you a big dose of reality in the hopes that just seeing the real possibilities that lay before us will ignite your excitement and passions, and help get you ready to roll.

Learn From Past Mistakes

Knowledge and understanding help defeat fear. So, we need to spend a few minutes taking a good look back, digging through the muck, uncovering the truth and learning from it.

The first thing we need to know is what caused the collapse of both the real estate and financial markets not only in this country but also around the world.

I recommend reading the Conde Nast *Portfolio* article, "The End" by Michael Lewis (author of "Liar's Poker" and a number of other best sellers). It's the shocking and absorbing story of the cause of this debacle. Lewis gives us the who, what, when, why and how of a complex progression of events and circumstances in a very easy to read and understand piece. Find his article on line at:

<http://www.portfolio.com/news-markets/national-news/portfolio/2008/11/11/The-End-of-Wall-Streets-Boom>

This is not something we should ever have to experience again. New regulations and oversight programs from the SEC will see to that.

One of the saddest facts to come out of the whole experience is the huge number of individuals, financial professionals, investors, government officials, and even whole countries that were blindsided by the collapse. Every single one of them was in denial that markets could head south – that the prices of homes and investment products could be less tomorrow than they were today. It was unthinkable!

Unfortunately, some of that kind of thinking is still going on. As a result, no one – absolutely no one

– knows how big the bailout needs to be; how much economic stimulation is going to cost; how many of this nation's biggest corporations are going to end up in bankruptcy courts with forced asset and debt restructuring or closed doors; or how long it's going to take for the Government's largesse to trickle down to the betterment of us all.

That's because no one knows how deep the crap on the Street really is. A great deal of it still hasn't hit the books for the world to see. Remember, the reports that we see in the news are at least one quarter behind. That means we still have not heard about declining holiday sales and the year end results.

All of this has created one incredibly difficult and painful lesson for us to learn, but learn it we must. And then move on.

Under New Management

In a few short weeks, The United States of America will be under new management. Change is the order of business. Change means growth for all of us.

Whether you voted for the man or not, Barack Obama will be our 44th President and we need to

come together as a Nation. Both candidates preached "Change" – meaning we were headed in the wrong direction and we need to make new choices. The old saying still rings true: "The definition of insanity is doing the same thing the same way and expecting different results."

Obama sought the job because he believed he could make a difference and get our country back on track in terms of its leadership position in the world, its powerful economy, and its powerful people. And, in doing so, he believed he could help each one of us.

Whether you voted for him or not, Obama's story is one of passion and desire to overcome incredible odds. His story is not unlike that of every small business entrepreneur who walks through my door. If nothing else, we ought to use his story as an inspiration so we can succeed in our own lives.

Never has a President taken office where so much is riding upon his ability to hit the deck of the Oval Office running in 50 different directions at once. His agenda is overloaded with top priorities; each as important as the others.

The November 16th interview with Obama on CBS' "60 Minutes" likened the results of his Presidential agenda as the new "New Deal." Indeed, we really need a new New Deal... especially small business owners in this country. We're all hurting.

Big Apple and The Gathering Clouds

In August 2007 we saw the beginnings of serious trouble for the economy and took immediate actions. We began revising strategic business plans for Big

“ Just seeing the real possibilities that lay before us will ignite your excitement and passions... ”

Apple and all its Divisions to help us ride out whatever storms were headed our way, and over time, revising those plans again and again as what lay before us grew clearer and uglier.

Stringent cost cutting and cost controls were implemented across the board as well. While it hasn't been easy for any of us, we've strictly adhered to the revised financial plan.

Big Apple's 2007 business plan called for total S & A expenses to be \$22,015,000. After considerable budget cuts, total S & A expenses for 2007 were \$14,196,529 – a difference of more than \$7.8 million.

In 2008, Big Apple management cut its expenses even more; reducing our total S & A expenses to less than \$8.4 million. This represents an additional savings of more than \$5.7 million.

YOU CAN ONLY CUT SO MUCH! Business and economic reality is the same. You can only cut expenses up to 100%, but *you can increase your revenues and profits infinitely.*

The opportunities are out there, we just have to open our eyes.

Considerable research and thought was given to opportunities that could arise in the various markets we serve and how we could best take advantage of them. This work went on to include totally new markets that blended well with Big Apple's core businesses. Our company's participation in 3D Eye Solutions is a perfect example of this successful synergy.

It's not always easy to recognize opportunity in its rough, early form. What we found with 3D Eye Solutions' astounding technology was that the various entertainment industries using 3D technologies were rapidly moving in the same direction toward making it the must have, newest new thing. Granted, this recession has slowed progress for the time being, but one thing is for sure: *there's no going back.* 3D entertainment is here to stay, and with 3D Eye Solutions, Big Apple was able to jump on board for the ride up (*see the August 2008 newsletter for the full story*).

In heeding the economic warning signs, much of our work has extended to helping our clients with their own strategic planning. Every new client now receives a detailed Action Plan designed for our team to help them achieve success.

Even with the economy and the markets trending down, this past year has been successful for a number of our clients.

Among those clients whose growth and success we're proud to have supported is Propalms [PRPM] and Metapower International [MTPR], both of whom have been Big Apple clients for over two years.

Propalms is based in the United Kingdom, and with our help, it went public in December, 2006

when it began trading on Pink Sheets.

In 2007, there were 5,122 companies listed on Pink Sheets and only 75 of those companies were able to uplist to the Bulletin Board that year. It's quite likely a lot less made it in 2008. Propalms is one of the ones that did, having successfully uplisted for trading on the OTC-Bulletin Board this past October.

Propalms had to go through comprehensive reviews by both the SEC and FINRA. Completing its successful uplisting to the Bulletin Board took a real team effort from the executives at Propalms, their SEC attorneys and auditors, Big Apple managers and Account Reps and MSI Account Teams to make this dream a reality. It's quite an accomplishment and I'm personally very proud of the role we played in making it happen for this client.

Metapower International recently announced profitability with earnings per share of \$.09. They have an annual growth rate of 60% and have just completed their 7th consecutive quarter of profits. Not bad for a Pink Sheet company.

So, early on we saw the storm clouds forming and immediately began taking necessary actions. We found opportunity, explored it, liked what we saw and got a piece

of it. And, even though the small cap markets were hit hard and none of us were immune to its problems, we never lost confidence in our abilities to do well as a company and to serve our clients well. We've always been there for them with our work, our guidance, and even a sympathetic and understanding ear when needed.

It almost goes without saying that 2008 has been a bumpy and often stressful ride for all of us – clients, shareholders and employees alike. And the ride's far from being over!

The Dawn of a New Era

We are living through and perhaps playing a significant role in what is no less than the beginning of a whole new era for America and the world.

The experience is going to be something you'll brag about to your grandchildren and all who'll listen. They'll be watching 3D movies without glasses and reading digital history books for years to come about this burgeoning new era and all that it means to the growth of our country. And you're in the thick of things witnessing history being made.

Make no mistake. I'm not trying to gloss over what may come to pass as one of the "darkest hours" in the history of our Nation.

The times are more than challenging; they're damn tough. They're tough on all of us; nobody is immune. Nobody. And we've all got to deal with it and make it through.

“ We are living through and perhaps playing a significant role in what is no less than the beginning of a whole new era... ”

Be Prepared For What's to Come

This isn't a "Reality Report" for nothing. I want you to know what's likely to be coming our way so you have time to prepare for it. So, take a deep breath and read on.

Conventional wisdom says that this recession will last at least through all of 2009 and perhaps a little beyond.

The Jerome Levy Forecasting Center of Mt. Kisco, NY – people who've been among the most accurate forecasters over the past couple of years – don't paint a pretty picture for the coming year. They tell us:

- Housing prices will probably fall another 20%;
- The length and severity in the pullback of consumer spending will surprise most analysts – business profits are likely to suffer significantly for it;
- State and local fiscal positions are precarious if not already alarming;
- Unemployment is likely to rise a few notches more, reaching 8.5% by the end of 2009 and will near 10% before it reverses. (We hit 10.8% unemployment in November and December of 1982 as this country was shaking off a previous recession.)
- The financial crisis in a number of other countries is likely to be uncontained and severe, leading to financial depressions.

- It's likely that the credit squeeze is not going to be fixed by recapitalizing banks. (The Center explains this by saying, "The underlying problem is not just that aggregate private loans are too large relative to bank capital; it is that they are too large relative to aggregate private income. Thus, the problem is with the borrowers, not just the lenders; households need to lower their debt relative to income while corporations need to lower their debt relative to revenue.")

Warren Buffett, not one to mince words, recently commented on what is perhaps our biggest challenge, "The credit freeze is sucking blood from the U.S. economy."

He's absolutely right. And the blood that is getting sucked dry is mine, yours, that of all of our clients, and all small businesses across the Nation.

Another thing Buffett is right about is, "The economy is going to be getting worse for a while before it starts getting better."

Small business has been taking a drubbing. The challenges didn't "trickle down." They came at us in a deluge! Today many small businesses are just one more setback away from having to close their doors.

The Big Picture

It's not going to be all gloom and doom – far from it. As I've already said, a lot of good – both for all of us and for the country as a whole – is going to come

out of this. The majority of people won't begin to see this until the dust starts to settle. That's their loss. Don't make it yours.

It's important to always have the big picture in mind. The next administration needs to understand the fact that small businesses need access to credit so that we can all play our part in strengthening the economy. There's a lot of work to be done and there are great expectations of Obama as President. But no one can realistically expect overnight solutions to complex problems that took decades to create.

We must dig down deep and work harder and smarter. Those who are willing to put in the time and make the sacrifices will be rewarded. And that is my ultimate expectation for Big Apple. I know what our team is able to accomplish because we have done it before and we will do it again. So be prepared for success and success will come.

Something else is going to flow in our direction too: opportunity.

A recent Wall Street Journal article, "In Chaos Lies Opportunity," talks about an eight year study that analyzed the net profit margins and sales growth of more than 2,500 companies. It found that about 24% more firms moved from the back of the pack to the front in the

2001 downturn compared with the subsequent period of economic calm. At the same time, about 20% of all companies in leadership positions (defined as being in the top quartile of financial performance in their industry) fell to the bottom quartile. The study also found that after the economy rebounded from that recession, by comparison only three-quarters as many companies made such dramatic gains or losses.

The difference between small business and large businesses during the economic downturns is simple. When you're headed for an iceberg, would you rather be in a row boat or a battleship? It's a lot easier to turn around a row boat while the battleship best be prepared to sink.

The article goes on to report: "Many industry leaders fall from the top during recessions because they assume that a strong market position is an insurance policy against trouble. That approach breeds overconfidence. Executives postpone taking precautions or reach for the same levers they pulled in the past – like hedging their bets by diversifying. When the downturn hits hard they usually over-react. They slash costs and staff indiscriminately, cut capital expenditures, squeeze suppliers, and avoid strategic acquisitions. Then when conditions improve, they must spend heavily to regain momentum.

"The better approach: slow in, fast out – like a good driver heading into a sharp curve. Winners in

Small businesses are critical to maintain a robust U.S. economy:

- 99% of all American businesses are small (today there are over 25 million of them);
- They anchor our communities;
- They provide approximately 75% of the new jobs added to the U.S. economy every year (representing 99.7% of all employers, and employing 50.1% of the private work force; and,
- Small businesses generate 14 times more patents than big businesses and are the key reason America remains competitive in our global markets.

recessions tend to brake quickly heading into a downturn by managing costs carefully and consistently. It's like downshifting to a lower gear to slow momentum and increase responsiveness. They focus on what the company does best, reinforcing the core business and spending to gain share. They aggressively monitor the competition to ensure they have the best possible line through the curve. That sets them up to accelerate at the apex of the curve, when the economy starts to improve. The farther you can see and the quicker you can turn, the faster you can safely corner.

"For most industries, the optimal time to hit the brakes and downshift was months ago. The questions to be asking now are: Where is the apex of the curve, and how hard should we accelerate to take advantage? The companies with the right answers to those questions will have the inside track coming out of this downturn."

This Wall Street Journal article came out October 22, 2008. For us, perhaps the most reassuring thing about it is the fact that the "better approach" it puts forth succinctly describes the strategy Big Apple has been following since August 2007 for surviving, thriving and growing during these turbulent times. That's really gratifying.

The big picture looks pretty good for us.

The Tipping Point

Many, many people were surprised with the speed of the economic collapse mostly because they only started paying attention when it reached the *tipping point* a few months ago. [See our May 2008 newsletter article, "Future Shock – Dealing with Change" for in-depth information on the process of change.]

The Jerome Levy Forecasting Center also put out that, "It's not going to feel like much of a recovery for a while, possibly not until 2010."

Now connect the dots.

The recovery won't reach its tipping point until some time in 2010 when people are going to start seeing and believing in it. But, pay attention here, folks: the actual recovery will be starting in the middle of 2009 (if not sooner). We won't arrive at the tipping point until the recovery from this recession has been moving along for quite a while. That's just the way change happens. That's reality.

Big Apple is going to be accelerating out of the recession-recovery curve early on. You can count on it.

In the past we were a Nation of "progress junkies" as Robert J. Samuelson so aptly calls us in his recent Newsweek article. "We think that today should be better than yesterday and that tomorrow should be better than today."

He went on to write, "It's fair to note that the U.S. economy has a long record of defying pessimistic predictions. Our national culture, with its pervasive ambition and its proven capacity for innovation, favors expansion. These are powerful forces." But he's a bit pessimistic about what will be the end result: "The recession will end, but recovery won't ensure a return to previous rates of economic growth."

I think he's right. When the dust does settle, the American economy is likely to present a whole new landscape with some new rules, new ways of thinking about business, and new business objectives. Indeed, the business world and financial markets are likely to be considerably more conservative and cautious.

Growing Forward

I believe very strongly in the fact that action is always better than no action and I believe in making things happen. We have a lot of work ahead of us.

Know that Big Apple is going to stay the course, fulfilling its mission.

And we'll be growing. Growing forward. We haven't even scratched the surface of how big and successful Big Apple is going to get over the coming years.

2009 is going to prove pivotal to how big Big Apple will grow and the levels of success it will achieve in years thereafter. Our business plan states that we are a recession proof company. Slow economic times and severe market declines are the nemesis of smaller, newer emerging companies whose stocks receive minimal respect under such conditions. Consequently, demand for Big Apple's advisory and public relations services increases as executives from these companies search for answers for their shareholders.

Without doubt, the coming year is going to be full of challenges. In overcoming them, we will grow and become that much stronger as a company and as the people who made it happen. It's going to be one heck of an interesting ride for all of us.

MISSION STATEMENT

"Big Apple Consulting USA's mission is to provide emerging growth companies the exposure they need to achieve success in the financial markets and to help our clients, brokers, investors and employees realize their true potentials through mutual growth."

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Big Apple Consulting USA
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280 Wekiva Springs Road #2030 ■ Longwood, FL 32779 ■ TOLL FREE 866.THE APPLE

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