

THE STEWART REPORT HOTLINE

Subscriber Update for Tuesday, January 29, 2008

With gasoline priced at better than \$3.00 per gallon, it came as no surprise that, among *FORTUNE*'s list of "The 100 Fastest-Growing Companies" – 37 were from the energy sector. No other industry even came close. However, when a tiny bottle of prescription pills typically costs more than a barrel of oil, the pharmaceutical sector holds an investment fascination as well.

Research reports on both industries make frequent reference to the pipeline. In energy, the idea is to keep it full of oil and gas, while the goal of pharmaceutical makers is to keep it stuffed with new drugs in various stages of FDA approval. Today, this is a very large concern because so many big name drugs are becoming as old as the people who take them.

Utility patents are good for 20 years from time of "first use." Certainly, two decades of exclusivity is a good long period. But, quite often, a drug is in use for many, many years before it is actually offered to the general public. This starts the clock early – which is why so many relatively new drugs are already available in generic form. Viagra, Cialis and Levitra are perfect examples. Other big-name brands for which there are generic versions include Paxil, Wellbutrin, Propecia, Zyban, Soma, Clonidine and Lexapro. Later this week, you can add Zyrtec to the list as it's about to go off-line, too.

Out of curiosity, I phoned the local Walgreen Drug to try and ballpark the size of the off-label market. The pharmacist told me his best estimate is that 40 percent of the prescriptions he fills are for the generic versions. In terms of money, that's a phenomenal amount of product now selling for a fraction of its original label price. Put another way, it's billions of dollars worth of profits that the pharmaceutical companies want to replace. So, if you're a CEO at one of the Upjohns, Abbotts or Pfizers of this world, you stay highly focused on your pipeline – always on the lookout for ways to reduce the costs of new drug development and fast-track the approval process. Hands down, the most effective way to achieve both is to buy an existing biotech with new drugs already in the works.

As a car collector, I can assure you there is no way to restore a classic car in less time or for less money than if you were to simply buy one in finished or near-finished condition. Similarly, drug makers know they can save decades and dollars by buying another company's existing R&D. Even if you are a Bristol-Myers – with a Pulitzer prize-winning scientific team, a Frankenstein-sized laboratory and a research budget to match – starting from scratch doesn't always make sense. Not when you can simply get out your checkbook and buy a big head start on your company's future by acquiring another firm's past.

It's just that simple – which is why **new** biotech is so alluring, the premiums paid for biotech are so huge, and why biopharmaceuticals nearing Phase III FDA approval can make their stockholders rich. For us, **Amarillo Biosciences, Inc.** (NASDAQ/BB: AMAR \$0.31) is well on its way – if not almost there.

There are three phases to FDA approval. Two of Amarillo's five drug applications are already well into Phase II clinical trials. The Phase II application for Behçet's disease is being conducted in Turkey. Amarillo has 84 of 90 patients enrolled. The study will be completed this year. Also in Phase II is Amarillo's United States study for oral warts. Thirty-seven of 80 patients are now enrolled in this 13-city study, which could be completed as early as June. Treating these painful sores is a \$170 million market annually.

Amarillo Bio also believes low-dose oral interferon will be effective as a preventive and/or a therapeutic treatment option for several other diseases, including human influenza, hepatitis C and the chronic cough experienced by COPD sufferers. Phase II clinical trials for human influenza will commence in Australia in June. (They will be timed to correspond with that nation's winter, which is our summer.) Research to fund Phase II clinicals for chronic cough is also in the wings. It's believed that as many as 39 million people suffer from chronic cough – a major side effect of other maladies, such as idiopathic pulmonary fibrosis (IPF). It's not fatal, of course, but it **is** a very real “quality of life” consideration for those who have it. This is a Holy Grail disease, with annual market revenue potential estimated at more than \$2 billion. Amarillo hopes to have this study completed well before year-end. The FDA green light to begin Phase II studies for Hepatitis C could come as early as next week.

If you'd like to be a successful stockbroker – right out of the gate – simply buy a good phone list of physicians. Call up and tell them you have a 23-year-old micro-cap stock that is traded on two different continents, has 1,800 stockholders, 13 patents and five different FDA drug applications that are already in Phase II trials. When they pull up the symbol and see that it's a 31-cent stock, you'll be opening new accounts as fast as you can dial the phone.

This really is a slam dunk. Sure, it has taken us forever to get here – but, from these levels and at this moment in time, it's a slam dunk all the same. It is exceedingly rare for a tiny biotech to be this far along with the FDA. It's also quite rare for a Company this size to attract investing partners from all around the world. To date, some \$38 million has been invested in Amarillo's oral interferon technology. We're talking outside money from other companies, major universities and foreign governments! And it continues to flow in.

On Jan. 10, you might have noticed that **Firebird Global Master Fund** (\$3 billion under management) invested \$1 million in a convertible-preferred issue. Four days later, Amarillo received a \$526,000 grant from **Texas Tech University**. Both organizations are in good company: **Hayashibara Corp.** of Japan, **Bumimedica** from Malaysia, **Nobel Corp.** in Turkey and **CytoPharm** of China are all paying to advance Amarillo's research and approval of oral interferon.

As soon as **any one** of the five Phase II trials moves to Phase III, the stock will rally like never before. By late 2009, Amarillo Bio could receive its first FDA approval. Even if the approval is for one of the smaller applications, the implications would be mammoth. And so would our return on investment.

Amarillo Biosciences has to be rated an exceptional long-term BUY.

J. David Stewart

Analyst and Publisher, *The Stewart Report*

Information contained herein has been obtained from sources believed to be reliable, but there is no guarantee as to completeness or accuracy. Any opinions expressed herein are statements of our judgment on this date and are subject to change without notice. Acting as an investor, and also as a consultant to the Company, David Stewart owns 25,000 shares of AMAR. He also owns 100,000 shares of ICRD governed by Rule 144. (The holding period expired four months ago, but all shares are still held.) He also owns an aggregate of 190,000 free-trading shares of ICRD purchased in the open market and a total of 141,000 APNN acquired approximately two years ago. Affiliates of The Stewart Report may also have additional long or short positions in these and other securities discussed herein, including warrants and/or options, and may buy or sell same at their own discretion. This report contains or may contain forward-looking statements within the meaning of the "safe-harbor" provisions of the US Private Securities Litigation Reform Act of 1995. This report is intended for informational purposes only and does not have regard for or take into consideration the reader's investment objectives, financial situation or suitability for securities mentioned herein. Consult with your financial advisor and perform your own due diligence. Copyright © The Stewart Report 2008.