

THE STEWART REPORT HOTLINE

Subscriber Update for Monday, February 11, 2008

A Strange Breed of Cat

I've commented before on the difficulties inherent in valuing penny stocks. On the whole, they tend to defy conventional analysis – much as they defy convention itself. The problems with penny shares have nothing to do with price. Rather, they center on insufficient or highly distorted information. That's because the business operations have yet to be realized – at least not fully. Perhaps, not even close.

As such, attempts to apply established theorems on emerging situations rarely produce anything useful. For example, it's not often that you can anticipate price moves using stock charts because penny shares tend to have very short trading histories. Even stocks that have a past don't always have a pattern – and those that do usually feature insanely wild price and volume surges. It's all very hard to make sense of.

Along similar lines, what can be made of balance sheets that show no assets or income statements that show no income. Obviously, there is no sense to be made at all – not conventional sense, anyway. That type of understanding is found only when there is a degree of consistency and mathematical measure. All too often, there's no real point in trying to examine cash flow, current ratios, debt ratios, return on equity or backlog figures because the numbers are either non-existent or less than flattering.

Does this mean that, if you add a couple of penny stocks to your portfolio, you are taking a foolish risk? In a word: Sometimes. But, if you take the time to meet with the company personally, do everything you can to stay in touch without becoming an annoyance and show a degree of patience, it's been my experience that a lot of money can be made. That's especially true if you let management know you own shares – and, *even more importantly*, that you *always* stand willing to buy a lot more shares – at much lower, or even higher prices – should changes in the company warrant.

Inevitably, this will work to your favor because it's *equally inevitable* that the best news the company ever gets will arrive just when it finds itself *completely friendless*. Don't ask why. I don't know why. It's just one of those “darkest-before-the-dawn” things that life seems to respect. The bottom line here is that management will come to learn you are *not* a pest – and you are certainly *not a whiner*. They will only know you as an intelligent friend of the company – a pro who deserves to be kept informed.

Sometimes, \$5 Million 'Is a Real Cool Hand'

This is the approach I learned from my earliest investment mentor. Oddly enough, he was also my first big client when I was a stockbroker. Be that as it may, this guy did *very, very well*. Certainly, there were other talents in play – chief among them experience, intelligence and determination. Moreover, it only works if you can *play it cool*. And, this guy was definitely cool – with the Paul Newman-sized paydays to prove it. The money *always* came because companies always gave him the best information. And, like I said, the information always seemed to come when it was worth the most because the stock was worth the least. And be assured, there was nothing illegal about any of this. No *insider* information. Not really.

As long as he didn't get *lied to*, he kept the conversation links alive – in bad times as well as good. Perhaps even more so in bad. So, it's no wonder he was *the first to know*. Everybody else was too busy looking at their monthly statements and feeling sorry for themselves – to busy pick up the phone, call the company and see *just what* was going on. Over a five-year period, he made \$5 million. Put in perspective, his initial stake was *one-tenth* that much. (In addition, most of the profits were taxed as *long-term* capital gains – another major advantage to opting for this kind of approach.)

If $MC = R \dots$

Another thing the client taught me was the idea of $MC = R$. Simply stated, if a company's market capitalization is equal to its revenues, then the stock is probably a really good deal. This formula – which is really just a basic rule-of-thumb comparison – allows you to recognize the relationship that exists between a company's *present-day revenues* and its probable *future earnings*. Here's how it works – and why it's so helpful:

Once a young company rounds the corner and its operations achieve a degree of predictability, the common result is to see 5 percent of revenues fall to the bottom line in the form of after-tax earnings. Restated, 5 percent of something is one-twentieth of something. Growing companies usually command a price-to-earnings ratio of 20-to-1. So, it's axiomatic that if a growth company looks as though it has turned the above-mentioned corner and you can buy it for 1X revenues, then you're paying a theoretical P/E of 20. So, if the revenues are the same as the market cap, you know the share price is well within the "buy" range. Thus, the $MC=R$ idea. Keep in mind, though, that revenues are *never stagnant*. If statistics suggest they are about to climb, the stock will also have to climb if the ratio is to stay intact... Dig? Of course you do. (But, if you don't, please feel free to call me and we'll go over it together.)

International Card Establishment, Inc. (Nasdaq/BB: ICRD \$0.10)

With the above in mind, what's the *real value* of International Card Establishment? At 10 cents, NASDAQ says it's worth just \$3.33 million. But SEC documents for the recently reported Q3 of 2007 suggest an annualized revenue run rate of *\$8.65 million*. Similarly, the nine-month results support annualized revenues of *\$9.24 million*. So the company is doing \$9 million – meaning the market cap should be at least \$9 million. Right? Wrong.

As I said, it's just *\$3.33 million*. For everything to even up, the stock must triple – *and it will*. In my mind, a 300% move in ICRD is a given. This is why I've accumulated a good position over the last couple of years. If you've noticed – from report to report – my position either stays the same or grows because I refuse to sell. As soon as ICRD gains a noticeable following on the Street, the numbers will speak for themselves. Stock profits will follow suit. Again, *visibility* within the investment community is all this stock really needs. To that end, I'm selfishly doing my part.

Recent Developments

For the 16th consecutive year, the *Dick Davis Digest* requested my submission for its annual "Top Stock Pick 2008" issue – which is interesting because *The Stewart Report* is only 13 years old. (Fortunately, before he retired, Dick Davis altered editorial policy to allow me to submit my stock ideas when I was still just a broker – and, even then, they'd usually have to extend the deadline because, of course, I was late. The tradition has carried on with little changing except for the names of the companies.) This year, my pick was International Card Establishment, Inc. The editor placed our little \$3.33 million company prominently on Page 2 – right beside **Comcast Communications** and **Alcoa**, companies with respective market caps of \$53.8 billion and \$27.4 billion!

Additional ink is on the way: Soon I will clear the decks and prepare the long-promised eight-page *Stewart Report* featuring this stock – and I'm going to mail *tens of thousands* of copies. The new *Report* will mostly be a compilation of things I've already written, so it won't hold great revelation for those of you reading this now. I'm not going to charge you for the ICRD *Report*, so at least the price is right.☺ Instead, we'll *stick it to the man* – **William Lopshire**, Esq., that is. A while back, CEO Lopshire agreed that, if a certain deal came to fruition, the Company would be interested in a comprehensive *Report*.

On Jan. 10, I knew Bill had made this deal happen when an alliance was announced between ICRD and **American Bancard, LLC**.

American Bancard has achieved phenomenal success in attracting merchant bank card business – and it's easy to see why. Each time it approaches a business proposing to handle its credit-card processing, American Bancard also offers the owner *a sizeable business loan*. The loan is secured by the credit card receipts. This removes most of the risk to American Bancard, while providing “Joe’s Pizza” with a deal *too good* to refuse ... Certainly Joe’s Pizza wants \$10,000 for a new oven! So, of course, American Bancard gets Joe’s credit card business. Plus, it holds a loan that also includes a “Smart Card” commitment by the pizza merchant – a commitment that is going to turn into *a real boon* for ICRD’s business.

On Jan. 29, I talked with **Brad Nickels**, Chief Marketing Director for American Bancard. That same day, his top producers were converging on Scottsdale to receive new sales training. The specific purpose: To begin marketing ICRD’s proprietary “Smart Card” to all of its merchants. According to Nickels, that merchant base has grown from 50,000 to 70,000 in just the last six months. Obviously, this company is *on fire*. Now, its best salespeople are just as fired up to offer Smart Cards.

The Advantage to American Bancard: Smart Card sales revenues and royalties. Also, ICRD will bring merchant-card business to American. Lastly, the cards themselves will help to grow American’s merchant customer base. After all, that’s the whole purpose of offering Smart Cards: To build *brand name* and *customer loyalty*! (In truth, the embedded chip in each card helps merchants to do much more, such as tracking customer preferences and purchasing trends.) All in all, it’s a nice little chain of technology wherein *everybody wins*.

The Advantage to International Card Establishment: Revenues will *more than double* in the first year. This would push them to between \$18 million and \$20 million. For ICRD’s market cap to correspond in kind, our shares would have to reach *60 cents*. I’m feeling really good about everything. Right now, few seem to appreciate the value of this deal except for the companies themselves. No matter. We’ve been waiting forever to cash out with a big win, so a few more months won’t hurt.

Important Note: Not only are penny stocks a strange breed of cat, but no two can be skinned the same way. Relative to the formula, **Applied Nanoscience** and **Amarillo Biosciences** are two such cats. That’s because AMAR and APNN are all-or-nothing deals. Right now, they have “nothing” (i.e., no real revenues), so you can’t apply the formula. And, even if they get it “all” (i.e., FDA approval), the formula *still* won’t apply. Why? Well, for starters, any company with a one-of-a-kind FDA-approved product can easily send *20 percent* to the bottom line – not just five. This gives the revenues a much larger metric as soon as they appear. Wall Street loves rich margins and exclusivity. These attributes – and a whole host of other bio-related benefits – enable stocks like APNN and AMAR to command P/E ratios of 150-plus (not just 20x) once they garner FDA approval.

Current Investment Opinion

As per the above, it’s unlikely that an enterprise like International Card Establishment, Inc., will achieve the absolutely stratospheric valuations that companies like **Applied Nanoscience, Inc.** (Nasdaq: APNN – \$0.42) or **Amarillo Biosciences, Inc.** (Nasdaq: AMAR – \$0.34) could one day enjoy. That’s why both stocks are so very attractive as long-term speculations. Seriously, if things come together as they could, the profits from either one of these positions could pay off your home loan. Both AMAR and APNN are still rated a **STRONG BUY**.

By contrast, **International Card Establishment** is a company with *real* numbers – *right now*. It has a strong current ratio, millions in current revenues, no long-term debt, a strong credit line that’s largely

untapped – and *momentum!* With all this to its favor, ICRD has the obvious potential for strong and sustainable growth. Persuasive as it is, that’s not the argument for buying the stock at this time.

With a 52-week high of \$0.26, a 52-week low of \$0.05 and presently priced at a dime, percentage-wise, ICRD is your smart play for the short haul. Even the trading pattern has managed to produce a stock chart that shows ICRD as a probable near-term buy for a run that could push the stock to 20 cents – and in short order, too. (Larry Spears’ full technical analysis – aka, “The Rabbit Report” – is now available at stewartreport.com.) True, the stock is up a bit from last time, but the downside risk is still virtually non-existent. As such, I see ICRD as your **Best Short-Term BUY**.

What’s Ahead: This rapid sequence of three HotLines pretty much brings you current with all of our current stocks – at least to the extent that *you know most everything I do*. As always, I’ll be closely monitoring each of our companies for new information, but I don’t know for certain when it will come, so I can’t precisely schedule the next Hotline recording. But, if you’ll phone the usual Hotline number (1-949-583-6057) in about three weeks and punch in the pass code (“63”), I should have a specific date to announce in the intro message.

As always, thank you for calling – and for subscribing.

A handwritten signature in black ink, appearing to read "J. David Stewart". The signature is fluid and cursive, with a long horizontal stroke at the end.

J. David Stewart

Analyst and Publisher, *The Stewart Report*

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