

THE STEWART REPORT HOTLINE

Subscriber Update for Sunday, April 20, 2008

Overview:

Warren Buffett once quipped that he had just two investment rules: 1) Never buy an airline stock; and, 2) Never buy an airline stock.

As far as anyone knows, the only time Buffett broke his own rule was about 20 years ago when he took a large stake in Delta – and a large loss, too. Buffett's dislike for the airline industry – much as the industry itself – has never really changed. Airlines are notorious for an array of problems, most of which are inherent. These include massive government regulation, frequent union unrest, dramatic fluctuations in energy prices and top-level executives who invariably seem to mismanage all that they usually have going against them.

And, in spite of wide awareness of these inherent woes, the airlines persist in getting it wrong. Certainly, we've seen better business environments, but when times are hard, smart companies try to improve their service, not eliminate it. Instead, passengers are now finding that their complimentary meals, soft drinks – even the paper pillows – are going the way of the dodo bird. I mention all of this because *The Stewart Report* is about to eliminate one of its services, too – except this one really is a dodo bird. But, I want you to know that this decision was based on product obsolescence, not managerial ignorance.

I'm referring to the audio version of the HotLine – and only the audio version. It will be decommissioned shortly after you read this – and, for 98 percent of my subscribers, this will be a complete non-event. In fact, my newest subscribers don't even know to call it – and most everyone else has long since switched to the e-mail version, or simply waits a day or two for the print version to arrive. After all, it's not like we're day trading futures contracts.

The Stewart Report began offering the audio version 12 years ago as a modest act of altruism to accommodate a blind subscriber. Soon, everyone was calling it – and for good reason. Back then, personal computers were a lot less prevalent and e-mail accounts were rare. Today, that's clearly not the case. Even so, I don't want anyone to feel left out. If you don't have an e-mail account, but can provide a fax number, just phone me and we'll send you HotLines via facsimile. I should mention, too, that if you have not yet given us your e-mail address, please go to the website (StewartReport.com), click on the "Contact Us" link and we'll set you up for future *Reports*.

Now for the one immediately at hand ...

Tuesday, **Applied Nanoscience** issued a watershed news release discussing test results, NanoMask® progress and the upcoming merger with EMFP. That night, I phoned CEO **Tom Allen** at home and we covered everything at APNN. Wednesday morning, I finished the EMFP side of that conversation with EMFP's CEO **Phil Dascher**. Finally, that same day, **Amarillo Biosciences** issued a news release announcing **Peter Mueller, Ph.D.**, as AMAR's new COO. He and I spoke as well. So, I've got some good content from all the key players at those companies to report. But, as always, rather than simply regurgitate basic news that's already in the public domain, I won't repeat the company releases word for word – you can pull them from *The Stewart Report* website if you want that. Rather, what I'll give you in the remainder of this HotLine is the in-depth, between-the-lines version.

First though, one additional note: I also reviewed **International Card Establishment's** recently released year-end numbers with CEO **Bill Lopshire** this week, but he expects the first-quarter results to follow in just a two or three weeks, so I'll wait and update ICRD in the next HotLine – which should roll off my pen in late May.

Applied Nanoscience, Inc. (Pink Sheets – APNN: \$0.40)

By mid-June, **Emergency Filtration Products** will submit the proprietary NanoMask® to the FDA for approval. This represents the first commercial validation APNN's technology.

I've been waiting years to write that sentence! The profits associated with approval will enable all of us to write some very big checks ... not immediately, but soon. Regardless, the timing couldn't be better.

In a highly militarized, post-9/11 environment, where an airborne bio-terror attack is a very real possibility, and with the threat of bird flu or another pandemic still looming large, the potential sales of an affordable personal protection mask would have to be mammoth. Especially for a nano-coated mask offering unmatched protection against virtually every known pathogen.

Low-end estimates peg the market at \$300 million annually. And that's just for the mask. Over the next three to five years, the biggest money will be made from the larger nano-based applications for aerospace, commercial and residential housing and the military. Cumulatively, the demand for nano-treated filters for these markets runs into the billions. Put into perspective, if the merger were to take place today, EMFP and APNN would have a combined market capitalization of less than \$17 million. Comparing a combined company of this size to markets that size is like weighing a pair of copper pennies against a Brink's truck full of platinum bars.

The merger itself will take time. And money. The blatant misstatement of revenue items by EMFP's former CEO has made it necessary to bring in a team of auditors to restate all of CY2006. In some respects, it doesn't matter: Applied Nanoscience is pretty much running the show because it owns the core asset (i.e., the patented intellectual rights to the nanotechnology itself) – and APNN's financials are clean as a whistle. Besides, what interests the FDA is the efficacy of Emergency's mask, not the accuracy of its SEC filings – and we're only interested in the FDA. Regardless, it has been an expensive and time-consuming burden – and it ain't over yet. The best guess here? One year and \$100,000 to clean it up and make it pretty.

The Tests of Time

But it's the next six weeks that really count. After months of sophisticated testing – all of which has produced exceptional, if not better-than-expected results – CEO **Tom Allen** told me his end of the NanoMask project is essentially completed. His silver nanoparticle formulation has proven to be 99.99% effective against all pathogens (both viral and bacterial) that it has been subjected to, holds up fine against prolonged heat – and father time. Shelf life is the quality that will encourage product stockpiling by governments, corporations and consumers worldwide. Paradoxically, though “time” was easily the most crucial test, the tricky part was devising a nano coating that would stay affixed to the filter, even in rough transit. But that too has been successfully addressed.

As for EMFP's part in the pre-application process, CEO **Phil Dascher** said the hardware – i.e., the mask, the head strap, proper packaging, etc. – is also good to go. All that remains are two small steps:

- 1) Even though the nanoparticles have proven themselves effective on the final finished product, it must also be proven that, prior to manufacture, the liquid nano-formulation itself can be stored in a warehouse in 55-gallon drums without degrading. This 45-day time simulation takes just two weeks. It will begin on April 22.

2) On May 1, the Company will be ready for the final test ... a brief one to validate that the post-time-tested liquid formula will still be effective against viral threats. Actually, that test won't be performed until Thursday, May 15 or May 22. Either way, it will be Thursday because every Thursday is "Bird Flu Day" at the testing center. I'm serious about that, but it makes me wonder if officials moved it forward so it wouldn't conflict with "Taco Tuesday." Anyway, everything should be ready for FDA submission circa May 30, but the Company wants to play it safe and asked me to talk in terms of "mid-June."

With product approval so potentially close, APNN's news release commented on the need for EMFP to begin revamping its manufacturing facility in Mexico. As with EMFP's financials, bringing Mexico back on line will take money and time. Ideally, that timetable will coincide with FDA approval. There is absolutely no way of knowing how long that might take, but the Company's Washington, D.C., lobbyist group estimates between 30 days and six months. During that time, if the Mexico facility is returned to operational speed, the first-ever revenues of an FDA-approved personal protection mask incorporating nanotechnology could be realized before year end.

This would equate to a large and immediate surge in the stocks of EMFP (\$0.15) and APNN (\$0.40) – but Applied Nanoscience is still the one to buy.

The reasons for my solid preference of APNN over EMFP again center on its clean financials and proper capital structure. Both are prerequisites for financing – and financing is a prerequisite for growth. But, most importantly, APNN has exclusive rights and ownership of the single most important assets: The nanotechnology formulas and patents! Having the best filter on earth doesn't always matter, not when there are global companies like **3-M** – monsters that can out-market you, out-produce you and whatever else it takes to keep you invisible to the buyer. *But ...*

The ability to take a 3-M filter – or anyone's filter, for that matter, and in almost any industry – then nano-coat it to dramatically improve its performance ... That's a different matter entirely! And that's why APNN is more valuable than EMFP. Operating at a heightened proprietary capacity and with a much wider scope will have to give this stock more value as events unfold. One of those events will be the eventual merger of APNN and EMFP. Which is why I've always said to **HOLD** your EMFP shares, but to direct all new **BUY** orders exclusively towards Applied Nanoscience. Especially now.

A Grand Irony

Concurrent to all that EMFP is doing with the NanoMask, APNN announced that it is beginning to work with major corporations to establish specifications for major applications – principally in aircraft manufacturing and the HVAC (heating, ventilation and air conditioning) industry. In other words, while the housing market is currently everyone's worst nightmare and most agree with Buffett that air carriers are black death, the planes and houses themselves could, ironically, be APNN's best targets.

Even on a bad day, a plane builder like **Boeing** or an HVAC leader like **Carrier Corp.** has the kinds of scientists who can easily appreciate something as revolutionary as nano-coatings for filters. They also have the kinds of laboratories to manipulate the technology to its best and highest usage. Ironically, until now, that was a problem – one that stemmed from a lack of patent protection.

For Tom Allen to work with outside scientists and make progress with tailored applications, much of the proprietary nano-science needed to be divulged. Eight months ago, that would have been too risky. But now, after investing approximately \$1 million, Tom Allen feels that, patent-wise, the technology is sufficiently protected to safely open its doors to interested parties. Corporate business is thus being actively pursued, although no names have been made public.

As for future funding, Allen and his board will raise \$900,000 additional for international patent procurement and to fund a scale-up of the particle-formulation process. Both projects will posture Applied Nano to approach industrial customers at the international level. As it stands, a \$2 million private placement (basically 33-cent stock with a 2-year warrant to buy shares at 50 cents) is half subscribed, so the \$900,000 mentioned above should be in place soon. Those of you who qualify as accredited investors should look into this.

As for common shares? We've waited literally years for the FDA and so many other events to be so close at hand. Now it's April 2008 and Applied Nanoscience is the hidden pearl of nano-cap stocks. The first win is just around the corner and the stock – now more than ever – rates as a **Strong BUY**.

Amarillo Biosciences, Inc. (Nasdaq – AMAR: \$0.30)

I learned early in life that if you don't want to smudge your academic credibility, then don't quote *Reader's Digest*. Among professional students and professors alike, to do so is as unforgivable as having a real job, dressing sharp or earning a mid-six-figure income. But, since I've never been afraid to irritate the academics, you can bet I'll quote it anyway. After all, even *Readers Digest* can't overly generalize solid statistics – and the April issue, which features a special report on the FDA, is chock full of them.

Relative to our long-term investment in AMAR, the *Digest* notes that, in the FDA approval process, getting through Phase I typically takes six to seven years. This is the stage where a promising drug is tested on animals to see how safe and effective it might be on humans. If the drug does well enough, it qualifies for Phase II. But, statistically, this is very, very rare: On average, only 1 of every 2,000 compounds tested will do well enough to qualify for Phase II human trials. Currently, Amarillo Biosciences has not one, but three applications in Phase II. If you appreciate the enormity of that statement, then you will certainly appreciate the rarity of Amarillo's scientific success.

There's not another \$9 million biotech on the planet that can make that claim. And, even if there were, it wouldn't be a 30-cent stock! But ours is – and that, too, is a fact.

While the value of these applications has gone completely unnoticed by “television investors” and the bourgeois buyers of big board biotechs, industry scientists have paid close attention. I've devoted more than one of these HotLine reports to a proper review of Amarillo's clinical partners, its international board of directors, its prestigious Scientific Advisory Board and its largest stockholder, **The Hayashibara Group**. Cumulatively, these individuals and entities represent the biggest of the big; the best of the best.

More than once I've also asked you to consider the Company's chain of cost and compensation. In most every case, AMAR's clinical partners are paying for the Phase II trials; its university studies are covered by government grants; its advisors and consultants are sweating for stock, not cash. And, if you've noticed, over the last 24 months, this trend has been on the rise. The reason is that Amarillo is within months of completing each of its Phase II trials, thus positioning itself and its applications for Phase III studies. That's where the payday is – and, in biotech, approval at that level pays investors like rock stars.

During this transitional period – the period Amarillo is about to enter – two critical considerations come into play:

- 1) On the investment side of things, stocks begin to trend upward in anticipation – sometimes sharply. Frankly, the anticipation can sometimes be more rewarding than the result. For example, how many times have you seen an oil stock or a gold stock soar in anticipation of a discovery, and then, even if riches are found, flatten out as investors wait for the well to be drilled or the shaft to be completed. In other words, savvy investors don't wait for FDA approvals to be granted and then buy the stock; they do just the opposite.

2) At the corporate level, if management is confident of the result, specialists are brought in to posture the drugs, to ensure that they are tactically labeled so they address the widest possible audience, and to secure marketing partners and proper funding prior to their release. On April 14, Amarillo Biosciences hired a specialist of this type – **Peter Mueller**, a German Ph.D. – to be its new Chief Operating Officer and Director of Research. After speaking with Mueller for probably 20 minutes, let’s just say that this single sentence completely understates Dr. Mueller’s 20 years of experience at the corporate level and six years as a widely sought-after consultant. Of all the high-caliber people **Joe Cummins** has managed to attract, last Monday’s addition of Dr. Mueller is easily the most timely given the Company’s current position of transition and opportunity. In fact, it’s such an important addition that, for future *Reports*, I’ll likely be talking with Dr. Mueller as much as with Dr. Cummins.

I think most of you know how I feel about this stock – and if you’ve been a subscriber for more than a week, you probably know how I feel about cars. That’s one of the biggest reasons I love the stock market – it has repeatedly given me the means to shop the exotic car market. But, this is one of those rare moments where I’m willing to reverse the process, putting a cherished “trailer princess” up for sale just so I can own more Amarillo. I really thought I’d have one of them sold before this – especially with the Euro so strong – but I haven’t yet. Nonetheless, **I DO** expect to buy a lot more Amarillo Biosciences stock soon – and would wholeheartedly encourage each of you to do the same. It’s just too damn cheap not to be a **Strong BUY**.

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



J. David Stewart

Analyst and Publisher, *The Stewart Report*

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