



DAVID STEWART INVESTOR ALERTS

SPECIAL EDITION

**Celebrating
12th year**

IN THIS ISSUE ...

FEATURED STOCK: AMARILLO BIOSCIENCES, INC. • UPDATE: ICRD



NEW BUY RECOMMENDATION**AMARILLO BIOSCIENCES, INC.****Overview:**

Amarillo Biosciences, Inc., is a U.S. biotechnology firm operating in global partnership with the Hayashibara Group, which also holds 13.5% of Amarillo Biosciences' shares and has provided over \$17.8 million in loans, grants and equity investments. The Company's primary focus is extensive and ongoing R&D into the use of low-dose, orally administered interferon as a treatment for a variety of conditions – both animal and human. ABI has invested nearly \$38 million to establish oral interferon as a therapeutic agent. To date 17 patents have been granted.

Several diseases that the Company has targeted fall under the recently enacted Orphan Drug Act. Orphan drug status is a highly favorable designation designed to greatly reduce the costs of clinical trials and streamline the entire FDA approval process. The three maladies for which the Company believes it can prove efficacy have a combined U.S. and European market exceeding \$600 million annually.

Besides orphan drugs, Amarillo Biosciences believes it can use its patented oral interferon in the treatment of influenza. The market for influenza drugs was quantified by Roche when 2005 sales of Tamiflu® hit \$1.3 billion. Another potentially large market for oral interferon will be in the treatment of chronic pulmonary disease, which afflicts as many as 15 million Americans, and upwards of 80 million people worldwide.

Trading Symbols

Stock Symbol (NASDAQ/BB)	AMAR
Stock Symbol (Frankfurt)	FZX.F

Price History

52-Week High	\$1.73
52-Week Low	\$0.46
Recent Price	\$0.87

Market Data

Average Daily Volume (US)	46,000
Shareholders (approx.)	1,800
Publicly Traded Since	1996

Capitalization

Shares Issued & Outstanding	24.33 Million
Estimated Float	9.34 Million
Inside Ownership	21%
Total Market Capitalization	\$21.17 Million

Market Makers

North America		25 (approx.)
Germany	Frankfurt	1 Specialist
	Berlin	1 Specialist
	Stuttgart	1 Specialist

Opinion:

Amarillo Biosciences presently has Phase II clinical trials under way for Behcet's disease, which qualifies for the "orphan" designation. Additionally, it just initiated patient enrollment to pursue Phase II trials using oral interferon to treat oral warts in HIV-positive patients.

Independent scientific research and recently published medical papers emanating from Italy, Australia, China and Russia support the Company's belief that its interferon pharmaceuticals will prove to be effective.

This furthers our own expectation that the Company's current clinical trials will garner FDA acceptance at the Phase II level. If correct, Amarillo's market value could easily increase by \$50 million. At present, the Company's aggregate market value is just \$21.17 million, thereby producing a strong, yet modest argument in support of a tripling in the share price before the end of 2007.

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After Forrest Gumping my way through most of the '80s and the easy stock profits afforded by the greatest bull market in U.S. history, I was able to retire early ... Too early, it would seem.

In just four years of super-fast spending, I managed to roll my nest egg into oblivion.

This was to be expected. It was like the master mechanic whose personal car is forever broken – or the CPA whose clients never have a problem, yet he repeatedly gets audited himself. My professional affliction? I had a knack for managing everybody's money except my own – virtually all of which went into cars.

Trust me when I say that, for persons with addictive personalities, a car habit is worse than heroin. And habits *need* to be fed. By age 36, I was slave to a collection of money-hungry Ferraris, Jaguars and Corvettes that drank cash faster than a Holly four-barrel carburetor can suck down 100 octane.

The downward spiral of my addiction is a common story: Tapped out and lacking legitimate resources – or any recognizable skills – I was forced back onto “the street.” Fortuitously, my street took me to a familiar intersection: The one where Wall Street crosses Broad.

Those of you who signed up 12 years ago know that this is how *The Stewart Report* came to be ...

A story that more or less became a matter of public record when *Fortune* magazine interviewed me in April of 1996. The *Fortune* article was the kick-start that put this newsletter on the map, and my beloved cars back on the road. This much we know. What isn't known, however, is the identity of the low life who leaked my previously unpublished, highly sensitive car information to a **Dr. Joseph Cummins**, Chairman and CEO of Amarillo Biosciences, Inc.

Cadillacs: At Home on The Range

Cummins was quick to capitalize on my weakness and used it to lure me to Texas to see his company. What's worse, he invited me in the middle of winter. Let me tell you something. People who live in Orange County live here for a reason – and it's *not* so we can shovel snow off our driveways. Fortunately for all, I love money more than I loathe being cold. So I went.

From the airport, Cummins and I drove straight past Amarillo's downtown area, past the rail yards, past the stockyards – until we broke out onto the prairie. After just six or seven miles, we were in the middle of nowhere. (That's the thing about the Texas Panhandle: Nowhere is everywhere.) But I didn't mind. All I knew

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is that we were cruising Route 66, and closing in fast on the “Cadillac Ranch.”

If you're not aware, the Cadillac Ranch is the demented brainchild of Stanley Marsh III, a wealthy Amarillo eccentric whose socio-artistic “statements” are just as enigmatic as Warhol's soup cans, and as thoroughly pointless as Christo's umbrellas. Seriously, what are we supposed to make of ten steel-bodied Cadillacs – mostly from the '50s and '60s – buried, nose first, all the way up to the roofline?

All that remains exposed is a perfect row of trunk lids slathered in graffiti, bullet-shaped red brake lights and garish, rocket-shaped tail fins – all pointing skyward, 22 degrees askew from true vertical. Some say the slant was calculated to match the precise angle of the Great Pyramids, which is completely stupid. Then again, the same could be said of all the road warriors and car junkies who feel compelled make the pilgrimage to Cadillac Ranch just to pay homage (even though *not one of us* knows exactly what it is we're paying homage to!)

That's not to say that the symbolism was entirely lost – at least not on me. By the time I'd left Texas, Cadillac Ranch had become a metaphor for the bio-pharmaceutical company that I'd flown down to see.

Amarillo Biosciences, Inc. (Nasdaq/BB: AMAR), is another anomaly of the Panhandle. It's a little-known Lone Star icon-in-the-making – one that's wonderfully different, strangely out of place and located smack dab in the middle of nowhere.

Because it's so thoroughly obfuscated, the company has gone almost completely unnoticed and its shares remain woefully under priced. For now, this lack of visibility works in our favor – but it will almost surely be short-lived. A series of profound developments – most of which are very recent – will make the company and its stock pop up on radar screens in mid-2007. Trading now at just \$0.87, we currently recommend AMAR as an excellent **BUY** for near-term speculation and long-term investment.

– JDS

A diamond in the rough is one thing. A diamond in the dirt is quite another. Especially if the gem is a D-flawless solitaire – one that’s perfectly cut, but imperfectly placed: Lying on the prairie to sparkle for big Texas skies instead of New York money.

This is how I see **Amarillo Biosciences, Inc.**, and why nobody else sees it at all ... Nobody on Wall Street, anyway.

All of which begs the question: How did a high-tech Company like Amarillo Biosciences come to be founded in a “no-tech” region like the Texas Panhandle? Moreover, if this lack of visibility is a big reason for the stock being so stupidly cheap, why doesn’t the company simply relocate?

Geography 101 and 102

Last question first. In 2005, Sen. Jay Rockefeller invited Amarillo’s CEO, Dr. Joe Cummins, to West Virginia to discuss moving the Company to his state. It was a pretty big deal; lots of handshake pictures and local media.

Sen. Rockefeller’s offer was as generous as his name is prestigious. Specifics were never released, but involved the usual perks – tax incentives, moving allowances, etc. Most importantly, the Company would have been given complete access to the University of West Virginia’s newly expanded, multi-million-dollar medical research department. It would have been a real sweetheart deal, too – if it weren’t for one thing: Amarillo’s research into low-dose interferon alpha is fully defined.

Obviously, as with any science-based corporation, research must be viewed as an on-going activity – and Amarillo Biosciences is no exception. But Dr. Cummins has been conducting continuous research on interferon-alpha in animals and humans for 29 years. He’s had 51 medical papers published on the subject, performed 70 animal trials and been granted 17 patents.

Since the Company’s founding in 1984, nearly \$38 million has been invested. Separately and cumulatively, independent research in Italy, the former Soviet Union,

China and Australia has confirmed both the efficacy and advantages of low-dose oral interferon-alpha. What’s needed here is not more research, per se, but more proof – final and *definitive* proof. That’s a hard-fought asset that only comes with FDA approval. To that end, AMAR has two Phase II human clinical trails currently under way, with a third scheduled for this spring.

As flattering as Sen. Rockefeller’s invitation was, Dr. Cummins decided to stay in Amarillo. There, continued research into new animal applications is readily at hand, and access to added state funding is more available. Worth noting, too, the cost of doing business in Amarillo is – like the town itself – next to nothing. That’s not an exaggeration. (In reviewing the financials, I noticed a couple of months in 2005 where AMAR’s overhead was less than that of *The Stewart Report!*)

Answering the original question – i.e., “How did the Company come to be founded in Texas?” – is fundamental to the overall equation. If you understand how AMAR got its roots, it’s easy to appreciate the value of what is now being grown.

At the outset, let’s just say that Amarillo Biosciences was never a Big-City story – and yet, by mid-2006, that’s principally where it was being told, attracting new directors, doctors and investment dollars from metro centers like Tokyo, New York, Perth, Taipei, Hamburg, San Francisco, Istanbul, Milan, London and Beijing.

Interferon Technology Is the Focus

Today’s interest is, of course, in AMAR’s interferon technology – and the technology is an offshoot of academic achievements earned decades earlier.

Dr. Cummins has a Ph.D. in microbiology from the University of Missouri, a Doctorate of Veterinary Medicine from Ohio State University and was a professor at the University of Illinois. When a full-time research position opened up at Texas A&M University, professor Cummins left his faculty post, trading his students for cows (his words, not mine).

In 1981, the U.S. Department of Agriculture began handing out the first-ever federal dollars for the study of “shipping fever.” Shipping fever is a respiratory disease that’s usually contracted by livestock while they’re in crowded feedlots or jammed together in transit. The Texas Agricultural Experiment Station (which is tied to Texas A&M and located in Amarillo) was the first re-

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recipient of those funds. Dr. Cummins was among the first to apply them.

Joe found that the nasal secretions and saliva of sick cows contained alpha interferon; also noting that the concentration levels tracked identically with the course of the disease. This led him to believe that low-dose oral interferon (oral because it mimicked the natural mucosal location of interferon in the cattle) could be used to treat sick animals. Controlled clinical studies showed the treatment worked – and Amarillo Biosciences was formed to exploit the discovery. That was in 1984. The company went public in 1996.

Q: Which Came First? A: The Egg!

Just as Dr. Cummins' research into oral interferon emanated from livestock studies, the discovery of interferon itself was also animal-based. From poultry, to be exact. The term "interferon" was coined in 1957 in a research paper describing how this substance – isolated from chicken eggs – interfered (thus "interferon") with the replication of the influenza virus. It would be another 30 years before the first use for interferon received FDA approval – in 1987. The drug was slow to market, in part because it was virtually handmade, cell by cell. This made availability painfully scarce, and the price tag huge.

Recombinant DNA technology (genetic engineering) changed all that, allowing for mass cultivation. Today, the market for interferon is well over \$5 billion worldwide. Because interferon is devoured rapidly by the kidneys, conventional applications try to override this problem by injecting massive doses into the muscle tissue. By contrast, Amarillo's technology involves low doses of interferon taken orally and allowed to dissolve naturally in the mouth. Natural, too, is the manufacturing process it employs, using human cells instead of ones that are engineered.

Natural interferon has an advantage because many patients develop resistance to recombinant interferon. We'll have more about the full advantages of natural interferon over recombinant, the paradox of why low doses are actually more effective than massive ones, and why simple lozenges work better than needles in a moment. First, though, let's talk about how conventional interferon is being used, its benefits – and its side effects:

At present, high-dose injectable interferon is used to treat a variety of diseases and cancers, including malignant melanoma, AIDS-related Kaposi's sarcoma,

hairy cell leukemia, laryngeal papillomatosis, genital warts and some types of hepatitis.

Interferon-alpha is perhaps best known as a treatment for Hepatitis C. More than half of Hepatitis C patients treated with interferon initially show improved blood tests and liver biopsies. Unfortunately, according to the American Medical Association, half of them relapse once treatment is stopped.

The most frequent side effects are unusual tiredness and other flu-like symptoms, such as aching muscles, fever, chills and headaches. Because of these side effects, many patients decide to stop taking it altogether.

Others may become depressed ... *Severely* depressed. One source reports that 60% of Hepatitis C patients given injectable interferon and ribavirin consider suicide in the first 30 days of therapy.

Less Is More

In the art world, they call it "minimalism." In the medical community, they call it a hard pill to inject – much less swallow. I'm referring to the occasional paradox where something seems to be at conflict with common sense, yet it's true all the same. In this rarified instance, it's the idea that less interferon taken orally can actually produce a result that's superior to an injected dose literally 20,000 times larger – with no known side effects.

If this *Report* had a thesis statement, that would be it. And, if the statement is true, anyone invested in this stock is going to make a fortune.

I know I'm right about the money part because I also know what happens to a \$21 million Company that seizes a quarter share of a \$600 million market. Overly simplified, it would have annualized sales of \$150 million and sell for a minimum of 2 to 3 times sales. Mathematically, that would drive the stock 20 to 30 times higher – and any investment that goes up 20- to 30-fold just has to represent a small fortune in the eyes of the people who own it.

A Drug With Profound Potential

The size of the domestic market will be even larger when new applications are applied for, both animal and human. In fact, even the world market – which now stands at \$5 billion – will likely expand if Amarillo gets its FDA approval. Why? Because, when a drug costs less, can be taken without using a needle and doesn't produce symptoms worse than those of the

disease you're fighting ... well, odds are demand for the drug will expand simply because of the drug itself.

Think about it. A drug so universal, so easy to take and so safe to use that it could actually expand the financial dynamic of a \$5 billion industry ... Now *that's* profound.

My confidence level would likely be even higher if I were a doctor instead of an investor; a microbiologist instead of a stock analyst. Dr. Cummins is both, and I know he believes – to his absolute innermost core – that oral interferon works. Just as importantly, it does so without the health risks or toxicity that plagues high-dose interferon and the patients who take it.

The \$600 million figure referenced earlier is the current combined market for the three diseases that Amarillo can most quickly address with interferon-alpha: Behcet's disease, oral warts, and Hepatitis B. Two of the three (Behcet's and oral warts) affect relatively small populations in the U.S., which entitles them to favorable treatment under the Orphan Drug Act.

In separate studies, Amarillo has submitted Phase II clinical trials for each to obtain FDA approval. Those trials will be completed this year, with final Phase III trials finished in 2008. Even with the favored Orphan status, it will take from 12 to 24 months for the FDA to grant approval, so the Company expects to hit that \$600 million market sometime in 2010.

Start Buying for the Long Term Now

So that's our goal ... To make between 20X and 30X our money over a three-year holding period. The day Amarillo Biosciences announces formal FDA approval on any one of the three diseases, NASDAQ will probably have to suspend trading in the stock. Seriously, the news would be that big.

Between now and then, there will likely be some very large, incremental and periodic gains at each FDA check point – and for each disease application – along the way. That's why long-term investors should start accumulating now.

As for the Company goal? That's never changed. From Day One, the mission statement has been: "Obtain regulatory approval for low-dose oral interferon."

Period.

It's taken 29 years and \$38 million to get there. Well, almost there. By mid-2006, the laboratory research was complete, the medical papers had been published, the patents granted, the new drug applications submitted and approved and the FDA clinical trials were well under way.

Subscriber Update for April 2007

HotLine: New Subscriber Passcode!

The HotLine's 24-hour main number (949) 583-6057 remains unchanged. However, as of April 1, the new access code will be "63." (As in "1963 split-window Corvette Sting Ray," so David can remember it. Sad, but true.)

Next Issue: Nanotechnology?

Structural creation at the atomic level. Soon, functional devices invisible to the human eye and measured in billionths of a meter will be throwing off hundreds of millions in stock profits. This is the new wave; the new industry to be looking into. The place to investigate is at MIT's Nanotechnology Conference: Cambridge, May 7-11. David will attend and hopefully return with a new stock idea. He's currently looking at other companies, as well, so a new *Report* could be forthcoming.

That's when Amarillo pulled out all the stops to attract the most credentialed, most influential people in politics, biopharmaceutical development and medicine. For more than two decades, I've been investing exclusively in developmental-stage and emerging-growth companies. Not once have I seen persons of this caliber drawn to a company this size. Not even close.

The fact is, there are now hundreds of companies traded on the NYSE with market caps of a billion or more that don't have the first-cabin collection of board members, influential lobbyists, marquee lawyers and international partners with the power of AMAR's entourage. Even "The Short List" is impressive:

- On the Board of Directors, it has Thomas D'Alonzo, former President of Glaxo Smith Kline (NYSE-listed) and Stephen Chen, a Taiwanese national and the former Director of Pharmaceutical R&D at Ciba-Geigy (formerly NYSE-listed).
- There are also two other doctors, plus a wealthy private professional investor named Thomas Ulie, a Chartered Financial Analyst formerly with Bear Stearns (NYSE-listed).
- Amarillo Biosciences' Scientific Advisory Board consists of 10 men with a total of six Ph.D.'s, three M.D.s and some guy who only has an MBA (they make him

bring the donuts). Consultants to the Company include the former U.S. Ambassador to Sweden, Teel Bivins, and the law firm of Kent Hance, now Chancellor of Texas Tech University. (He's also the man who beat George W. Bush in a congressional race 28 years ago.)

- Then there's Manfred Beilharz, Ph.D., who heads a Nobel Prize-winning research laboratory in Australia. His job is to further the clinical studies of oral interferon in European nations, while the Ambassador and the Chancellor open doors to the White House.

- Most prominent, however, is Dr. Claus Martin who, from everything I've read, is THE physician to Europe's jet set and Southeast Asia's elite – some of whom are actually royalty. Dr. Martin has been of enormous value to the Company. Indeed, most would view him as the great catalyst of 2006. This year, Dr. Martin will embark on a number of trips to further introduce Amarillo's technology – trips to Thailand, Brunei, Myanmar, the Philippines, Malaysia, Singapore and Indonesia to name a few.

It's not like Amarillo got out some giant checkbook to buy these people, either. Sure, some money was spent to retain lobbyists, but that's what lobbyists are – hired guns. Pure and simple. However, even they came over – on their own volition. And, in some cases, with their own check books.

The bottom line here, compensation-wise, is that these individuals are all in it for the stock. This puts them on the same side of the fence as we, the investors – and that, as they say, is a “Good Thing.”

Hayashibara Is Not a Sushi Bar

Virtually everyone just mentioned came on board in 2006. The exception is Hayashibara Corporation, which has been with Amarillo Biosciences almost from the start. Hayashibara is Japan's largest biopharmaceutical company and the world's 20th largest privately held company, according to *FORTUNE* magazine. It's also the single largest stockholder in Amarillo Biosciences, Inc. Even many of Hayashibara's low-level employees own stock in this thing.

There's always been a good deal of scientific sharing between Amarillo and Hayashibara, which also manufactures all of the AMAR's interferon lozenges.

International Developments

On Nov. 27, a contract was announced between Amarillo Biosciences and CytoPharm – a key subsidiary of the largest biopharmaceutical company in Taiwan. The relationship was formed to prove the efficacy of

AMAR's low-dose oral interferon against influenza and Hepatitis B.

Hepatitis B – known as “The Curse of the Chinese People” – is a major disease in Taiwan and mainland China. Both governments have spent billions – and committed even more – to deal with this deadly disease. Under terms of the agreement, a lot of those dollars – both hard and soft – will wind up being directed at Amarillo Biosciences.

CytoPharm will conduct (and pay for) all clinical trials. The win/win CytoPharm deal is similar to one Dr. Cummins cut earlier with a Middle Eastern pharmaceutical company to address Behcet's disease and gain approval for oral interferon in Turkey. Behcet's is not significant in the U.S., but it's a massive health problem in Turkey, where 300,000 people are infected.

A Clever Double-Edged Play

A year from now, when trials are completed, Amarillo will have a wired-in customer that will pay it a royalty. AMAR will then take the research results to the FDA for approval in the United States.

When I asked Dr. Cummins if the FDA would accept medical trials performed in Turkey, he said, “They better. From the outset, we involved FDA folks in establishing the protocol to be used. Furthermore, we have an internet link to Turkey (including real-time video) to monitor the tests and be certain that protocol is being performed ‘To the Letter.’”

That's what makes these deals so clever: AMAR uses the smallness of the diseases to gain favored Orphan Drug status and thereby fast-track approval in the U.S., while using corporations in Turkey and Taiwan, where the diseases are rampant, to pay all costs associated with the drug's development.

Less than glamorous, but unmistakably large – and virtually untapped. That's how best to describe the current position of Third World nations relative to high-end pharmaceuticals. It's a unique situation, full of opportunity – and Amarillo is the Company best positioned to market interferon there. Here's precisely why:

Low-dose oral interferon-alpha has three other advantages that recombinant interferon does not:

- 1.) Because the dosage for low-dose oral interferon is 1/20,000th as small as conventional interferon, the price per dose is much, much less expensive.
- 2.) Because it's taken orally, in lozenge form, no syringe is needed, meaning it can be self-administered.
- 3.) Unlike injectable interferon, oral interferon lozenges do not need to be refrigerated.

This means that AMAR's oral drug is ideal, most especially in Third World nations that can't afford recombinant interferon, lack the medical personnel to inject it and don't have the electricity to keep it cold. Oral interferon resolves all those problems.

Bird Flu's in Play, Too

In addition, if demand for oral interferon-alpha should soar – say, in response to the rise of a new influenza pandemic – AMAR could rely on Hayashibara's massive capacity to manufacture the drug, and to help meet the supply shortfalls that would likely occur, not just in the Third World, but in industrialized nations as well.

Keep in mind that Bird Flu has not been eradicated; it's only slipped from media attention. With flu season back, the threat could quickly re-emerge. If you visit iFlu.org, as I do weekly, you'll see that people are still dying, and bird farms are still being eradicated.

Mankind has rarely gone more than 38 years without a pandemic ... 2007 marks year No. 39. If the worst viral threat in our lifetime – the H5N1 avian virus – learns "to pick its own lock" and jump from person to person, AMAR will be the biggest stock you ever owned.

INVESTMENT SUMMARY:

Apart from the \$38 million and nearly three decades of research that Dr. Cummins has plowed into the drug, 83 independent studies have been performed in China, Italy, England, Australia and virtually all points in between. They've involved dogs, cats, poultry, horses, swine, cows, mice and men. The conclusions have all suggested strongly that, not only is AMAR on the right path – AMAR is the path.

Amarillo Biosciences' largest single stockholder is the 20th largest privately held company in the world. Amarillo's board of directors is so impressive, so cre-

denialed, that you could probably seat them at a Pfizer or Bristol Myers Squibb meeting and nobody would know the difference.

Others very closely associated with the Company include a former U.S. ambassador, a former U.S. Congressman, the department head of a Nobel Prize-winning research facility and enough M.D.s and Ph.D.s to staff a good-sized hospital. Virtually all of them own shares in the Company.

With more than 9 million shares in the float, an average trading volume of nearly 50,000 shares daily and two dozen firms making a market in the stock, it's easy to get in and out. Presently, the smart money is getting in. And, increasingly, we see that much of this money is denominated in Euros.

Publicly traded since 1996, it's safe to say that **Amarillo Biosciences (Nasdaq/BB: AMAR)** is here to stay – and prosper. Low-dose oral interferon – not the high-dose injectable – is the wave of the future. And Amarillo Biosciences has all of the patents. This stock is an intelligent short-term speculation – and a remarkable long-term investment. **BUY.** – JDS

The Stewart Report is published on an irregular basis as new investment opportunities are identified.

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