

# THE STEWART REPORT INVESTOR HOTLINE

Special Subscriber Update for Tuesday, September 16, 2008

**‘You buy the ticket, you take the ride.’**

**– Hunter S. Thompson**

Sounds fair enough. But even the intrepid Hunter S. would have freaked if he had held shares instead of tickets – and if the ride was a virtual black-death base jump from the penthouse roof, sans a golden parachute.

That’s been our experience of late, as we presently find ourselves plunged into the sub-basement, close to the heating furnace and burnt like toast. Fortunately, we’re only burnt on one side. The price side. As for the other side – i.e., the corporate side – we’re still in fairly good shape. Morale at all the headquarters of all three of our companies is strangely high, with the only business complaint common to all that it is a tough market in which to raise growth capital.

Duh! The same capital squeeze is being felt by virtually every company, every bank, every consumer and certainly every investor. In just the last few days, we’ve witnessed the demise and subsequent federal bailout (up to \$200 billion) of **Fannie Mae** and **Freddie Mac**; insurance giant **AIG** is in deep, deep trouble; **Merrill Lynch** had to sell out to **BofA**; and, now priced at around two bits per share, 158-year-old **Lehman Brothers** is officially the world’s largest penny stock.

We’re talking marble-faced, multi-national, mega-billion-dollar players, one and all – and now each of them has been virtually destroyed. All that’s really left is a clear reflection of a certain truth: This market has been a bear like no other – perhaps not in terms of actual percentage losses, but certainly with respect to the intense uncertainty and extreme volatility. Here’s a statistic for you to ponder: Since the 1960s, the S&P 500 has recorded one-day declines of 2 percent or more an average of 4.7 times per year. In the latest 12 months, we have experienced 20 such single-day roller coaster rides – *not* including yesterday’s 4.71 percent super-slide.

The uncertainty and confusion has affected the micro caps more than most because the economy has affected the small investor more than most. There just aren’t any buyers. Completely lacking any kind of support, prices have been allowed to free-fall to historic lows on abnormally light sales volume.

As with any extreme market – bear or bull – investment values always go askew from the reality of the investment itself. This is to be expected. What was not to be expected was for this much to go so wrong, for it to go wrong all at once, or for the problems to be so protracted.

Here, “protracted” is the operative word.

The explosion in commodity prices, the mortgage mess and resulting fallout in the housing sector, the dramatic weakening of the dollar, the war in Iraq ... Few expected these tribulations to go on for such an extended period of time – or, in the case of the mortgage market and the diving dollar, to be so severe. Indeed, from a historical perspective, it’s almost unprecedented. Even guys I know who have been on Wall Street for 50 consecutive years say they’ve never seen anything like it. Instead of a one- or two-day crash, followed by a near-term rebound, we’re involved in the midst of something that’s far more slow and painful.

In spite of that, I maintain that as long as the companies themselves continue to march towards their individual objectives (and they are), then our investments will eventually turn around. They have to. After all, if corporate performance was never paired with rising share prices, the stock market would cease to exist. As such, I’m reminded of another famous Thompson quip – the one where he wrote:

**‘When the Going Gets Tough, the Tough Turn Pro’**

As that relates to us, the professional action is to push all emotion out of the way, objectively weigh the difference between the price ascribed to a company’s shares and the probable value of the company itself, and

then make The Decision: Buy, Sell or Hold. I've said this many times because it's the most important thing you can know.

Once you fully accept and understand this simple truth, the big considerations are what the company could be worth in a year or three – and what that future figure would equate to relative to today's share price. At present, the market valuations for these stocks are so out of whack you don't need a degree in finance – or even a sharp pencil – to appraise the potential. Simple math shows that the combined market value of all three stocks is just \$9.895 million. With that figure in mind, please consider this:

**Amarillo's** well-defined ambition is to simply capture 10 percent of the “chronic cough” market. Worldwide, that would equate to \$1 billion annually – mostly profit. **Applied Nanosciences**, the Company, has a true, honest-to-goodness platform technology with strong international patent protection applicable to tens of billions of dollars worth of filters and Lord only knows how many hundreds of millions in licensing fees. Now showing an occasional profit amid a credit crisis that has destroyed companies a thousand times its size, **International Card Establishment** simply wants to carve a niche for itself in the bankcard industry – an industry handling transactions that are counted in the trillions.

**Bottom Line:** Even a small success in any one of these stocks could set us straight – fast. All we really have to do is ride this thing out while we wait for a better market. I'll continue to keep you posted, as follows ...

**International Card Establishment, Inc. (NASDAQ/BB: ICRD – \$0.04)** I need to preface my discussion of this stock with a brief history for the benefit of new subscribers as they are best positioned to profit from this Report – and, just as importantly, to give perspective to a situation that has left virtually everyone else puzzled and discouraged. Read on ...

Two years ago – about the same time the U.S. credit markets started to unravel – ICRD began divesting itself of virtually all high-risk accounts in its merchant card portfolio. In truth, the decision was born of failure more than foresight, but it was the correct decision all the same. In tandem with the portfolio clean-up, ICRD also enacted a series of ruthless cost-cutting measures. Big or small, any item that added to the G&A was examined – right down to paper clips and bottled water. And that's *not* an exaggeration.

A year and a half later, in the spring of 2008, when the year-end numbers for FY2007 were released, the quantitative value of these efforts would, in fact, disclose a 50 percent reduction in operating expenses. However, as investors, the name of the game is not to wait for results – but rather to correctly anticipate results. Believing my forecast to be accurate, seven months prior to release of the audited results, I enthusiastically advised *Stewart Report* readers to average down. That was nearly a year ago – on Oct. 1, 2007 – when the stock was at 8 cents. After giving subscribers the first opportunity to act on my advice, I bought stock at 10.5 cents later that same day. I was very pleased with my investment.

That confidence spilled over into the current year when *Dick Davis Digest* listed International Card Establishment as *The Stewart Report's* “Top Stock Pick, 2008” in mid-January. Shares had risen to 15 cents. Since that time, I have recommended the stock as a “Buy” five times in eight HotLines, and increased my own position to 365,000 shares, where it stands today.

The entire time, ICRD has essentially been engaged in a downward pattern, surrealistically touching 3 cents a couple of times – the stock's all-time low – but on relatively small volume. The volume is worth noting because it shows there was no real clout behind the selling – especially in terms of raw dollars. Instead, it was just more weak-market evidence of abysmal investor sentiment and the total absence of buy-side support.

In other words, the sell-down should not be confused with disappointing corporate performance ... Quite the opposite: On August 18, International Card Establishment posted its results for Q-2, as well as for the first six months of 2008. That filing included its first-ever net/net profit of \$55,000 – versus a \$500,000 loss for the same six-month period in 2007, and a \$3 million loss in the first half of 2006! Our reward: In a word, decimation. During the exact same time period, the stock skidded from 34 cents to 4 pennies a share.

## Piano Catching

Apparently, no good deed goes unpunished. Either that or I was entirely too focused on the overwhelming factual turnaround evidence when, in retrospect, I should have heeded the advice of my primary broker, who warned: “If a piano is tossed from the roof, there’s no point in trying to catch it.”

That, I now believe, accurately sums up the strange professional investment mistake I’ve made repeatedly over the past nine months – not surprisingly, the worst nine months in my 28 years on Wall Street (tempered only slightly by the fact it included the market’s worst first half in nearly four decades). It’s also the biggest reason why I’m now relying increasingly on a couple of gentlemen who’ve been at this game for nearly 50 years – key among them **Pat**, my aforementioned stockbroker.

Pat has both a unique edge and a special insight to our situation. The insight comes from experience (he took his first brokerage position when I was still in diapers). The edge comes from his position (he works the trading desk for a top West Coast firm and personally makes a market in all of our stocks). I’ve known Pat professionally since 1984, and he’s handled most all of my stock business since 1995. He doesn’t need the money. Few of Kevin Costner’s neighbors do. No, Pat drives into Los Angeles before dawn because Pat truly enjoys his work – probably because he’s so damn good at it.

A week ago, when I was formulating ideas for this Report, Pat mentioned that he’d begun to steadily boost his trading position in ICRD. To me, the obvious inference is that he likes ICRD for the short term. More importantly, he implied that some of the shares were for his own account, indicating a positive long-term outlook as well.

The key players in International Card Establishment’s reconfigured operation are: Founding CEO **Bill Lopshire**, General Manager **Dana Marlin**, and **Dyson Barnett**, who heads the Company’s new **LIFT Network** division. Job titles aside, the role each man plays in the Company’s daily operations is critical, mutually exclusive.

Dyson Barnett was added last, because he was needed last. Lopshire had to save the Company before he could rebuild it. To that end, he hired Dana to make the ends meet. Thank goodness he did. Dana – a notoriously tight-fisted bean (and paper clip) counter, gets 100 percent of the credit for slashing overhead, liquidating all unprofitable sectors, stemming the horrific multi-million dollar losses and delivering to stockholder’s the Company’s first-ever bottom-line profit.

As for the balance sheet, Dana also gets credit for credit itself because he’s the one who convinced Worldwide Business Services Group, LLC to give ICRD a million-dollar credit line (at just 8%) at a time when the Company looked completely doomed. Today, only \$600,000 (approx.) has been drawn from the line and is considered short-term debt. As for long-term debt, the Company has none. Throughout the process, there was not a single share of dilution!

As mentioned earlier in this Report, and in several HotLines prior to this one, the only real cost to the bottom line was top-line revenues. To shore the Company against future financial weakness (which, incidentally, is the same exact same weakness that tore yesterday’s market to shreds), both agreed to liquidate all high-risk credit accounts. Obviously, when you get rid of customers – even if the customers are risky customers – you also get rid of some of your revenues. It had to be done, of course, but it also prompted *The Stewart Report’s* only “hold” advisory on the stock in 2008 – May 28, to be precise – when I wrote:

“... we’ve got a fairly decent balance sheet and a *quality* portfolio of *low-risk* bankcard accounts. These days, few people in bankcard can make that statement. As soon as Bill can find a way to grow the revenues, things should turn around...”

Two months later, I lifted the hold and advised you, as follows:

“A few weeks ago, when this turnaround became apparent, Lopshire got Dana to loosen the purse strings so he could hire a marketing wizard – one who could re-grow the Company. That’s when he re-approached Barnett (who had previously turned down ICRD’s offer to run the show). Long story short, as of June 5, Dyson Barnett is 100 percent on board. I really like his thinking, his background, his track record, his attitude, his language his intelligence ... As such, I am removing the HOLD and upgrading my recommendation on ICRD to **BUY**.”

### **The Triumvirate Is Now Complete!**

All of which brings me to the point at hand, which is the same point – or person, as it were – that my broker is enthusiastic about: Mr. Dyson Barnett. Immediately after reading that particular HotLine, Pat got in touch with Dyson, had a long conversation with the man, and hung up the phone with essentially the same “warm fuzzies” that I had after listening to his revenue plans for LIFT.

Already, those plans are bearing fruit. Lopshire told me Dyson’s LIFT Networks division was responsible for more than a quarter of all the new deals ICRD signed in August. Funding Dyson’s division with ICRD’s profits will marginally affect profitability itself. It doesn’t matter. Revenue growth is the missing component investors were looking for – and Dyson is the one who will deliver it. Like I said, I’m done catching pianos, but this is no piano – not anymore! **BUY**.

Frankly, I’m out of time, short on sleep and running out of room here, so I’ll provide you with more insight as to all that Dyson is doing in the next HotLine. Equally important, **Amarillo Biosciences, Inc. (NASDAQ/BB: AMAR – \$0.18)**, and **Applied Nanoscience, Inc. (OTC/Pink Sheets: APNN – \$0.14)**, will be covered in the next HotLine as well. After speaking with both companies, I sense that news is pending – excellent news, actually – that might be reportable circa October 10.

For additional insights on ICRD, as well as AMAR and APNN, that don’t necessarily reflect my own ideas, **Larry D. Spears** has posted “Rabbit Reports” with current charts and his technical opinions for each as of September 3. The Rabbit Reports are available at [StewartReport.com](http://StewartReport.com).

As always (and especially right now), thank you for your continued readership and practical patience! It’s a tough market, but we’ll get through it – and we’ll probably make a lot of money in the end. I believe in these companies, their business plans, the unique potential of their patented technologies and, most significantly, the entrepreneurial tenacity of their respective CEOs. The long term will most certainly bring rewards.

Sincerely,



### **J. David Stewart**

Analyst and Publisher, *The Stewart Report*

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