

## **The GeoPolitical Update: Iran Conference Call**

**March 8, 2012**

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Phil McConkey: Okay. We're going to kick this thing off this morning. Sorry about the inconvenience. I'm Phil McConkey, President of Academy Securities, and welcome to the first in a series of geopolitical presentations. The series will focus on those current geopolitical events and developments expected to have near-term market impacts. The ensuing analysis and discussions should thus be of interest to all capital market participants.

The presentation today features Major General "Spider" Marks (Retired), former senior intelligence officer for the 2003 liberation of Iraq, and Lieutenant General Frank Kearney (Retired), former Deputy Director for Strategic Operational Planning at the National Counterterrorism Center in Washington, D.C.

Only our presenters will have live microphones, so in order to ask a question during this presentation, please email [cmims@AcademySecurities.com](mailto:cmims@AcademySecurities.com), or use the chat function if listening via webinar.

We expect this call to last approximately 45 minutes, and we will have the ability to replay the call at a later time. We will send those instructions.

Today's topic cannot be more timely. We will be discussing Iran. So, Spider, it's all yours.

General Marks: Phil, thanks very much. The first point I'd like to make, or at least a comment I'd like to make, is Frank is not with us this morning. He had an emergency at home. We are hopeful everything will be fine. So, I'll be flying this bad boy solo. Which is not an issue; but I just wanted to let you know that Frank had to bail from this, this morning at about 7:30. And we're certainly tracking that, and our thoughts are with his family.

So, again, Phil, and Chance, and everyone that's on the line—thank you very much. The topic of Iran today, as Phil indicated, certainly is exceptionally timely. But as I view this as a former intelligence officer, I view this through kind of a prism of what do we know, and what do we don't – what do we not know, based on our ability to collect, and also based on Iran's transparency and effort to reveal itself?

And clearly, the topic number one is its nuclear capabilities. We'll certainly get into some other topics as well. But in essence what I'm saying is, there are myths that surround Iran today and have for many, many years since the revolution back in '79. And we've identified five of those. I would suggest there is – there are probably a bunch that we could talk about today, in addition to these five. But by way of kind of how we're going to shape it, the

myths that kind of concern me primarily is that, we primarily view Iran as being isolated and working rather autonomously in terms of its activities internationally and internally—how it conducts itself.

Number two, we talk a lot about the Straits of Hormuz and the fact that they can be closed and shut. Those are very precise terms that have definitions associated with them. And in fact, during the most recent intelligence community discussions up on the Hill that occurred, the Director of DIA (Defense Intelligence Agency), Ron Burgess, a very dear friend of mine, indicated that they could be closed. I think he's wrong. But he's in the business now, and I am no longer in the business, of precisely reading those indicators.

The third is, what's happening in Syria and elsewhere in the region, essentially is separate or isolated from Iran.

The fourth myth that I wanted to delineate is that Iran's nuclear development is autonomous; they will do what they want; they have done what they want. And that's not entirely true.

And then the fifth is that the only option with Iran is a military option.

So, the way I'd like to structure this today is, I'd like to kind of go very quickly – and again, Phil is the keeper of the clock, and he'll make sure that we're on time, and maintain the appropriate speed here. But I'd like to talk a little bit about the stuff that's in the news. Currently there is current reporting in the news, and then the op-eds are alive with a number of topics. I'll go through some of those. I want to talk about the Straits. What are the various pulses that we need to look at, when you talk about the Straits of Hormuz? It certainly gets beyond geography.

Their nuclear development—again, as an intelligence guy, a former Cold Warrior who evolved over the course of my career into a “hot and small war” warrior, there are differences, and clearly there are some – our ability to assess and collect has evolved, but Iran’s nuclear capability, and all of those members in the nuke club, routinely is topic number one. And then I also want to talk about the construct or the prism through which we need to view Iran.

So, having said that, let me give you a little bit of context. Iran’s nuclear development, as I indicated, is the topic. Anything else is subordinate to that and pales, honestly, in comparison. The Islamic Revolutionary Guards Corp (IRGC), or the Quds Force, the IRGC are the guardians of the revolution. It’s truly not the mullahs. In fact, Khamenei, the Supreme Leader, could in many cases be labeled as a moderate. The IRGC has infiltrated overtly both governance as well as business. I’ll get into that a tiny bit.

I’d like everybody to remember there are nine members of the nuke club. Eight of them are acknowledged. One is not. Five are members and signatories to the nonproliferation treaty, and those are the United States, the United Kingdom, France, Russia, and China. Three are not signatories—India, Pakistan, and North Korea. And Israel is not declared or acknowledged, but we understand their nuclear capabilities at a classified level.

Also, very interestingly, there are two countries that abandoned their nuclear ambitions. One is Brazil and the other one’s Libya. And those were abandoned without the use of force. However, we could get into some details as to the – what I would call the threatened use of force, or the ability to force a potential country to accept or develop that capability.

Remember, also, that the United States' nuclear capabilities are exceptionally robust. No one matches our abilities within our triad, which is air, fixed sites, and sea launch sites. There are about 8,000 warheads of different sizes. And of the 19 nuclear sites for development, weaponization, et cetera, five of those are under environmental remediation. And a big concern for us is our ageing nuclear fleet. When do we get in and update it, based on the volatility of the uranium?

And then finally, just as background, Iran has a population of about 74 million, and it's about the fifth the size of the United States, essentially from Arizona up to Idaho. So, in the news – and Phil, if at any time there's a question or you want to interrupt or inject, please do so.

In the news currently, obviously, the most visible thing that's in the news right now is Prime Minister Netanyahu's visit to the United States and our President's comments at AIPAC (American Israeli Public Affairs Committee), which is, "we've got your back." Now, that's significant in that the United States and Israel – if you were just looking at this on the surface, you'd say that's a good linked-arm position. But clearly, what was not said by our President is that we have your back along all elements and influencers of power, that being military primarily.

The second topic that comes off – comes up in the news as a matter of routine, is not exclusively Israel's attack against – or the potential of Israel's attack, and the details of that, against Iran's nuclear capabilities; but what are the asymmetric attacks that would then be launched, both against Israel, Western powers—specifically EU powers and the United States as well—specifically looking at Hamas and Hezbollah? In today's *Wall Street Journal* there was a

comment that Hamas would not attack Israel if Israel attacked Iran. Now, clearly, we – you can read the words; you’ve got to track the actions.

Haniya, who is the Prime Minister at Gaza since 2007—and Hamas has had control of Gaza—has indicated that – through his actions, there tends to be an alignment more with the Muslim brotherhood in Egypt than there is their very strong and historical ties to both Syria and Iran. So, that deserves a lot of very close look. And obviously, Hezbollah has no hesitation in launching capabilities toward Israel. They demonstrated that in the Second Lebanon War in 2006.

Iran has recently offered to have talks with the five nonproliferation treaty signatories, in terms of their nuclear capabilities. Again, we don’t know what that looks like, but the key issue here is the purity of the low-enriched uranium versus the movement toward high-enriched uranium; and I can get into some of those capabilities.

And again, *Wall Street Journal* this morning—a comment about Parchin, one of the sites – nuclear sites in Iran, being cleansed. In other words, it has been closed to inspectors for the past many years, and it appears now that there are efforts to remove any remnants or connections to radioactivity in the site, and then the site would be opened for inspection by the IAEA (International Atomic Energy Agency) and potentially others.

Also, Japan jumped on board today and said they are in final stages of discussions with the United States to decrease the amount of crude that they’re importing from Iran. So, this all is very topical.

Just very briefly, in terms of the op-eds you see, and I’ll just give you some of the topics that routinely appear. The definition of existential threat. Israel

sees Iran in that light, in that Israel can cease to exist if Iran chose to strike militarily with it's – an emerging nuclear capability.

Clearly, the backdrop of Israel's perspective is deeply woven into their DNA, and that's the Holocaust view. They are the historically aggrieved party in all communications. Their history of thousands of years show how that is very much a part of their view of the world. Also, Israel has a very peculiar history in that aggressive actions by those in their neighborhood and against them, cause them to be aggressive and justify their behavior, not dissimilar to German's – to Germany's activities – oh, from the mid 19<sup>th</sup> century through the Second World War. Those parallels are pretty clear.

Israel really runs the risk of being defined, if it's not already clearly defined, as a client of the United States. If they were to attack, the United States would clearly have no option but to get on board in some capacity. Ergo, that makes that alliance even stronger, and Israel now acts at the behest of the United States, could be a very clear argument.

And I would say, finally, the notion of urgency. A lot of discussion is, and I would argue and I have publicly, that 2012 is the year of decision relative to Iran and its nuclear capabilities. And many would say, well, South Korea has abided the development of nuclear capability in North Korea. I served as a senior intelligence officer in Korea and I could tell you, yes, they have. But unlike Israel, South Korea has not been attacked in a significant way. Although they were last year; but those were what I would call behavioral norms of the North Korean regime.

So, let me take that as kind of a backdrop of what's in the news, and let me transition to a discussion of what I would call, closing the Straits of Hormuz, one of the myths. Bottom line is, the Straits cannot be closed. Clearly, there's

a capacity for tanker traffic to be degraded; the volume to be degraded and decreased; but the Straits of Hormuz by themselves cannot be shut off. And both the word “closed” and “shut off,” are not military terms. They simply are terms that describe what I would call a capacity for activity within the Straits of Hormuz.

And if you look very closely at the Straits, there is inbound traffic and outbound traffic, and each of those lanes are very clearly marked, and they’re about two miles in terms of width, and then there is a buffer zone on the outside of both of those—clearly sufficient space for the maneuvering of very large tankers through that area.

Phil McConkey: Hey, Spider? We’ve got a...

General Marks: So...

Phil McConkey: Spider, we’ve got a question that’s coming in, that’s somewhat timely, regarding the Straits. And you say that they cannot be closed. But the question is, is there a single, final trigger event that would drive the Iranians to try to close the Straits? What should we be hedging against?

General Marks: There – in my mind, I don’t know that there is – and that goes to the notion of a single, discernible, and defining event to close the Straits. It would be very tough to identify. I mean, it’s kind of like trying to put a silver bullet out there that says, “If one, then two.” And frankly, in the activities of Iran, it’s always extremely difficult to see that.

Now, what might happen – and here’s the way I can kind of describe it, is that there truly is a sequence of events that would occur, and I can get into those in just a little bit, in terms of how the Straits would be closed. But the decision



on closing those Straits is frankly very, very difficult to determine, because there might not be an external stimuli that would cause Iran to act. They might want to act internally based on decisions made within the Supreme Council, clearly led by the IRGC.

So, my short answer is, I don't see a single event that would cause. I would see a potential escalation. And clearly what Iran would like to do is poke the Western powers as much as they could in terms of provoking activity, so we now—we, the Western powers and/or a coalition of the willing—would conduct activity against Iran.

Bear in mind the very difficult problem that we have with Iran is this – what I call the quandary. Which is, how can you make peace, and how can you rationalize a relationship, if I'm the IRGC, with any Western power, primarily the United States? Because enmity with the United States is the regime's *raison d'être*.

Phil McConkey: So, the next question...

General Marks: And from the United States' perspective, if you attack Iran, you then justify the regime. And what might be potential goodwill in Iran – 60% of the population of Iran has a favorable view of the United States. So, if you attack Iran, you might in fact lose that very quickly.

Phil McConkey: So, how are decisions made in Iran? One of our listeners is asking.

General Marks: Very good question. The way – in fact, the Straits – the viewing of the Straits and what happens around the Straits really uncovers the way decision-making is done in Iran. The IRGC is – frankly exists – the Quds Force, a subordinate element of the IRGC, exists as the guardians of the revolution. They have

infiltrated very overtly into governance and into business. In fact, as I indicated earlier, Khamenei might even be labeled a moderate relative to the IRGC. The IRGC has to ensure that the regime does not move into irrelevance. And Khamenei has the ability, and the Supreme Council have the ability, to veto all decisions that are made, or veto all legislative activities that are put forward.

So, decisions are made by primarily key elements of the IRGC, which are those folks that surround Khamenei and that decision-making body. In fact, in a word, it's relatively singular, in terms of a body definition. And there's not much of a balance at all in that.

Phil McConkey: So, with some of the moderates, it brings to mind the Cold War term of MAD, mutually assured destruction. I would guess the moderates understand this scenario, which would prevent them hopefully from launching a first strike. Is this true?

General Marks: Very true. Absolutely. Iran understands that this is an incredible, very precise dance that they are undertaking. They see the development of nuclear – a nuclear-capable Iran, as sovereign and inherent to their rights. The problem always is that movement into and development of a nuclear capability, is not an exclusively sovereign issue. There are controls that must be put in place in order to join that club. Because the consequences of a mistake affect more than your sovereign nature and that part of – those that you can control. So, Iran has indicated that they see this as a sovereign issue, when it clearly is not. By definition, it's not.

Phil McConkey: So, as far as – we're getting some more questions regarding Iran's economy. How centralized is the Iranian economy?

General Marks: I wouldn't even get into the discussion of trying to provide a clear answer on that. What I do know is that on the Tehran Stock Exchange the largest transactions, as a matter of routine, are done by the IRGC. So, it sounds to me like it's a relatively controlled economy. However, as I've indicated, it's youthful, and it has a favorable perspective of the United States. Something that we are very much aware of; and frankly, two years ago, did not take advantage of, during an emerging revolution that was – or at least an uprising that was occurring.

Phil McConkey: So, do the clerics actually make economic decisions?

General Marks: I would say the clerics don't. These are not clerics that are doing that. It is the IRGC and the Defense Minister, the Expeditionary Council, Supreme Council. It goes beyond and is far deeper than just the mullahs. In fact, a number of the keepers of the flame, if you will—the old line, as in Rafsanjani—are increasingly irrelevant, and there has been a tremendous increase in the growth of the IRGC and their positions within governance—their voices within governance.

Phil, if you'd like, as we continue to go along – this is great, and very, very helpful. I'll keep walking through some things that I think are important. And please interrupt at any time.

If Iran chose to close the Straits, their actions would be discernable. We'd be able to see the necessary actions that would be taken to cause them to close the Straits. And in sequence, what we'd probably see is – and let me take one step back, and tell you that all the activities to try to close the Straits would be done by the – would be initiated by – and the command and control apparatus would be the IRGC, not the conventional military. Those are two parallel structures that are in place in terms of the military.

So, in order – in sequence, I would say very simply, you'd see Iranian subs that would be deployed. Those are conventional subs. We would be able to track those very, very easily. And then the IRGC has some mini subs; mining capabilities; small attack vessels; missile boats; mine layers of all different sorts.

One of the concerns that would – as an intelligence guy, that would certainly concern me, is what I would call a technology surprise. What has Iran done over the course of the last few months or years, that we've missed? What have we not picked up? And probably this is technology partnership with the Chinese, for example in new types of mine capabilities.

You'd then see in sequence the deployment and activation of their IADs, (integrated air defense) capabilities. Their command and control nets would be very, very active. What do we see, in that case, that would be aberrant? What has happened with mobile and fixed sites? Where are they moving? How have they changed their posture from normal day-to-day types of activities? You'd also have (sounds like: surface) missile capabilities that would be deployed and activated. Those nets would suddenly pop up and we would see them immediately.

And then, most significantly, the cyber anomalies might occur. In fact, that might be a very first step that would take place by the IRGC or Iran's capability, very broadly and through proxies, that would try to interrupt and/or disrupt our capability to execute command and control. Remember, Iran was able, with the support probably of the Chinese, to grab the signal from the UAV (unmanned aerial vehicle) that was flying in the vicinity of Iran that we, the United States, had launched from Afghanistan. And they were able to bring it down.

Hey folks, let me stop just for a sec. Frank Kearney has been able to join us, which is great. I'll keep driving on. And then, Frank, I think the best thing is at some point, why don't you – if you want to jump in as we continue to move along, okay?

General Kearney: Absolutely.

General Marks: So, in terms of the scenarios – and also, Frank, what's been happening, which is great—Phil's been getting a bunch of questions that are coming in, and so we're really having a discussion...

General Kearney: Absolutely. The best way to go.

General Marks: ...more than anything else. So, a scenario clearly would be, you know, a tanker's coming through the Straits of Hormuz; it's hit by Iran in some capacity. That could be a surprise of some sort. You have a burning hulk now in the Straits of Hormuz. Based on the geography, it is not going to block or shut down the Straits of Hormuz.

What would happen is, traffic would degrade, because we would do that to ourselves. Markets would go crazy, industries would go nuts, and they would begin to be very, very tentative about how they routinely conduct their business through the Straits of Hormuz. The point I'm making is, it is not a military determination that the Straits of Hormuz would be closed.

So, continuing on, what would the response look like in terms of that type of scenario? And frankly, you'd see the reverse from the Western – and not just a US response. I would say there would be a US response. US reserves the right to respond unilaterally. But we clearly would, in this particular scenario,

respond probably unilaterally; but we would look for assistance from our partners, and that could be done very, very quickly. Those alliances, and that type of what I would call command and support apparatus, exists and is trained as a matter of routine.

So, I would see a Western response or a US response in the reverse of how I described it. First of all, we would conduct cyber attacks to try to degrade their ability to conduct command and support, command and control, and their ability to see what we're doing. Our two – the two legs of our cyber capabilities are to degrade, and to ensure our ability to conduct, and have freedom within our cyber networks. We would then attack their integrated air defense systems to ensure that we would have freedom of air capabilities, both sea-launched and land-based air capability. And that would also probably include our Gulf Cooperation Council partners that are in the Persian Gulf.

Under this scenario, we probably would not have a carrier battle group in the Persian Gulf. Primarily, that becomes a big bathtub and we don't want to be locked into the Gulf and get bottled up. We would probably have – if we are good enough to see any indicators, that carrier battle group would be outside of the Gulf and into the Arabian Sea, Indian Ocean area, to contact operations back into the Straits and into Iran that way. Then certainly we would begin anti-mining capabilities. We have our own attack capabilities against the small boats that Iran would – or the IRGC would launch, against both commercial capabilities as well as military capabilities.

Concern that we would have—and Frank and I have discussed this in quite some length—is we would deplete our inventory in terms of those types of capabilities very, very quickly. Back in the '80s we had a program called Earnest Will, where the re-flagging of tankers by the United States, and with the support of Kuwait, allowed for the free passage and flow of tankers

through the Straits of Hormuz. So, the United States has a history of ensuring that passage is not interrupted. And that would continue. It would have to continue. I couldn't guess how long this would take, although probably what I just described would probably be days vice weeks.

General Kearney: I – This is Frank Kearney. You know, I've spent a little bit of time watching us at Central Command plan for these things. And there are – what we have is a series of different levels of strike to be able to deal with an unintended event in Central Command in the Gulf. And so, what you – we would be able to likely see through intelligence surveillance and reconnaissance platforms – we would be able to see their submarines deploy. We would be able to see their small boats moving into places where they could do things. We'd be able to see them upload mines. We'd be able to see them look at their missile sites and make sure – so, there would be telegraphing that would then probably be passed through intelligence channels and nations to the tanker fleets that are out there, across the world, that move through the Straits. As Spider mentioned, we had – I mean, we have a big history of the Iran-Iraq war. I mean, during that war 507 vessels were damaged.

But when the United States entered, as they began to attack and intimidate the oil carriers, we were able to come in and place aerial platforms in there and be able to interdict. The Iranian capability is – got very, very limited defenses. So, you can expect that we have a five-day, a seven-day, a ten-day, and a 14-day plan to be able to take down the air defense systems; to take down the land-launched missiles that can strike our ships and other ships; to take out the small boats that are there.

And then of course, what will happen is, because mines are both floating and anchored, cleaning up the mines will always be a risk that will take us a little longer to work out. But the 50 kilometers in the narrowest point of the Straits

will allow passage and escort to be able to do things, once we take care of the Iranian IRGC-N (navy) capability predominantly. What they have in their own navy that operates in open water is not really a threat, and we can track that very, very easily.

So, we and our partners will have eyes, ears, antennas up; be able to know what's going on, be able to react. And then this action-reaction-counteraction that will have an effect on diplomacy as we talk about the other elements of power—this is part of what we would expect, even if there isn't a strike that occurs.

Phil McConkey: Now, even though the premise is that they will not be able to close the Straits of Hormuz, their attempt to do so—how much disruption do you see with the oil markets, simply by threatening to close the Straits?

General Marks: Well, as we know, one in five barrels internationally flows through the Straits of Hormuz. I don't – based on the scenario that Frank just described, where there are five days up to maybe 14-day type of engagements before we would say we are – we have now completely regained control, without any disruption to commercial traffic flow in the Straits—I would think that in the midst of that, even at the very close end of – close end period of the five-day scenario, we would ensure commercial traffic. I don't think we'd have a pile-up of – we'd have probably some tankers in the Arabian Gulf or the Arabian Sea, but not very many in the Persian Gulf, Arabian Gulf, waiting to exit. So, I can't hazard a guess in terms of the type of disruption, because I think every effort would be made to maintain a flow.

General Kearney: Yes. I think what you'll find is that, you'll find the other nations that don't have to pass oil through the Straits will increase production. I think people will all hit their strategic reserves. And so, the actual interruption of flow in a



five- to 14-day window would be minimal. But the psychological impact on the markets, and people overbuying and hoarding and doing things, would probably have more effect.

It will actually be insurance companies and oil carriers, the big folks, who will make the risk decision based on what they see and what we talk to them about. So, it's very hard from a military point of view for us to quantify that, as they make risk decisions about whether it's worth it to move oil through the Straits. We were able to do that in the Iran-Iraq war, and frankly escorted the re-flagged vessels so that they could go through. And so, I mean, it depends really on what those carriers and what those nations want to risk, and what effect it has on their economic markets.

General Marks: And I would tell you that the primary concern that we have upon the initiation of what would be military operations in the Straits of Hormuz, would be the asymmetric attacks that would take place elsewhere against these reserves and these stockpiles, and the ability inherently across the globe for nations to produce internally.

So, what we saw a few weeks ago in terms of suspected Iranian activity – IGRC activity in New Delhi, Tbilisi, and Bangkok, going against Israeli interests, is exactly what we would see if there was military operations in the Straits of Hormuz – is, you would see proxies conducting operations. The United States is an extremely hard target, but there are other targets that are associated with the exploitation and distribution – exploration for oil and different forms of fuel sources, that the IRGC and its proxies would target very, very aggressively. That's where we've put our antenna.

General Kearney: The other thing you'd see, obviously, is – I mean, the Iranians if you make the assumption that they are a rational actor in this, who have potentially started,

through this scenario, a law of land warfare violation— committed an illegal act by either a mine or a missile striking another vessel of another nation, that wasn't precipitated by some attack on their nuclear industry—they recognize that they will suffer as well.

I mean, the IGRC is an interesting set of cats, because they also are heavily involved in the petroleum industry; heavily involved in most of the coastal petroleum facilities. And so, as a result of that business perspective that this military guardians of the revolution force has, and Khamenei as the final decision-maker—they're going to make some economic decisions at some point in time as to how soon this needs to end.

Because, you know, in many cases, they only need to save face. It's an interesting perspective when we deal with some of the partners in the Middle East and some of the adversaries in the Middle East. I mean, as you may recall, Saddam Hussein indicated that he claimed victory in the war in Kuwait as we pushed folks back. So, they have a different perspective.

Standing up to the United States, standing up to the West, which is an inherent pillar of the Islamic Revolution, is core. So, the question is, how long will they allow this to occur before they come to some economic agreement with us? Because they will respond to the pressures of the world, as many of their consumers will feel the pain in Russia, China, India, and some other countries. So, very dynamic.

Phil McConkey: Gentlemen, we really...

General Marks: Please go ahead.

Phil McConkey: We really appreciate your insight. We're starting to run up against time. I think it's safe to say that this is such a timely and important topic that we should follow up again, and our next call should be Iran, part two. And if any of our friends and listeners have any questions or concerns or comments, please contact Phil McConkey or Chance Mims at Academy Securities.

We will be able to have the ability to replay this session. We will get that information on how to access that, out to everyone. But at this time I want to thank General Spider Marks, General Frank Kearney, for their time and their insight. And we hope to be back to all of you, to continue this discussion in the near future. Gentlemen, thank you very much.

General Marks: Phil, thanks very much. Our pleasure.

{ Crosstalk }

General Kearney: Same here. Thank you.

Phil McConkey: Thank you.

THE END