

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

HOUSTON AMERICAN ENERGY CORP  
Form 10-Q  
August 13, 2007

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 1-32955

HOUSTON AMERICAN ENERGY CORP.  
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	76-0675953 (IRS Employer Identification No.)
---	--

801 Travis Street, Suite 1425, Houston, Texas 77002  
(Address of principal executive offices) (Zip Code)

(713) 222-6966  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 1, 2007, we had 27,920,172 shares of \$.001 par value Common Stock outstanding.

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

HOUSTON AMERICAN ENERGY CORP.

FORM 10-Q

INDEX

Page No.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

Balance Sheets as of June 30, 2007 and December 31, 2006 . . . . .	3
Statements of Operations for the three months and six months ended June 30, 2007 and June 30, 2006 . . . . .	4
Statements of Cash Flows for the six months ended June 30, 2007 and June 30, 2006 . . . . .	5
Notes to Financial Statements . . . . .	6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations . . . . .	9
--	---

Item 3. Quantitative and Qualitative Disclosures About Market Risk. . . . .	14
---	----

Item 4. Controls and Procedures . . . . .	15
---	----

PART II OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders . . . . .	16
---	----

Item 6. Exhibits. . . . .	17
---------------------------	----

PART I - FINANCIAL INFORMATION

ITEM 1. Financial Statements

HOUSTON AMERICAN ENERGY CORP.  
BALANCE SHEET  
(Unaudited)

	June 30, 2007	December 31, 2006
	-----	-----
ASSETS		
-----		
CURRENT ASSETS:		
Cash	\$ 274,052	\$ 409,008
Marketable securities - Available for sale	11,000,000	14,000,000

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

Accounts receivable	267,642	325,436
Prepaid expenses and other current assets	99,570	-
	-----	-----
Total current assets	11,641,264	14,734,444
	-----	-----
PROPERTY, PLANT AND EQUIPMENT		
Oil and gas properties - full cost method		
Costs subject to amortization	11,097,845	6,796,308
Costs not being amortized	319,016	700,549
	-----	-----
Total oil and gas properties	11,416,861	7,496,857
Accumulated depreciation and depletion	(2,916,198)	(2,250,529)
	-----	-----
Net oil and gas properties	8,500,663	5,246,328
	-----	-----
Other property, plant and equipment	11,878	11,878
Accumulated depreciation	(11,022)	(9,934)
	-----	-----
Net other property plant and equipment	856	1,944
Total property, plant and equipment, net	8,501,519	5,248,272
	-----	-----
OTHER ASSETS	3,167	3,167
	-----	-----
Total Assets	\$ 20,145,950	\$ 19,985,883
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
-----		
CURRENT LIABILITIES:		
Accounts payable	\$ 779,515	\$ 399,159
Accrued expenses	15,126	11,909
Foreign income taxes payable	80,794	121,216
	-----	-----
Total current liabilities	875,435	532,284
	-----	-----
LONG-TERM LIABILITIES:		
Reserve for plugging costs	40,070	38,816
	-----	-----
Total long-term liabilities	40,070	38,816
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 27,920,172 shares outstanding	27,920	27,920
Additional paid-in capital	22,295,499	22,042,624
Treasury stock, at cost; 100,000 shares	(85,834)	(85,834)
Accumulated deficit	(3,007,140)	(2,569,927)
	-----	-----
Total shareholders' equity	19,230,445	19,414,783
	-----	-----
Total liabilities and shareholders' equity	\$ 20,145,950	\$ 19,985,883
	=====	=====

The accompanying notes are an integral part of these financial statements

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

HOUSTON AMERICAN ENERGY CORP.  
STATEMENT OF OPERATIONS  
(Unaudited)

	Six Months Ended June 30,		Three Months Ended June 30,	
	2007	2006	2007	2006
Revenue:				
Oil and gas	\$ 1,985,085	\$ 1,489,564	\$ 959,662	\$ 823,392
Total revenue	1,985,085	1,489,564	959,662	823,392
Expenses of operations:				
Lease operating expense and severance tax	894,813	450,591	488,246	256,385
Joint venture expenses	79,054	81,568	39,433	31,644
General and administrative Expense	874,780	517,441	521,142	305,862
Depreciation and depletion	666,756	180,012	394,978	90,533
Total operating expenses	2,515,403	1,229,612	1,443,799	684,424
(Loss) income from operations	(530,318)	259,952	(484,137)	138,968
Other (income) expenses:				
Interest income	(360,554)	(77,883)	(187,234)	(61,664)
Interest expense	-	57,278	-	14,778
Interest expense - derivative	-	37,773	-	20,883
Net change in fair value of derivative liabilities	-	170,949	-	67,872
Interest expense - shareholders	-	20,440	-	4,240
Financing costs	-	110,683	-	104,298
Total other (income) expenses, net	(360,554)	319,240	(187,234)	150,407
Net loss before taxes	(169,764)	(59,288)	(296,903)	(11,439)
Income tax expense	267,449	121,697	139,688	59,544
Net loss	\$ (437,213)	\$ (180,985)	\$ (436,591)	\$ (70,983)
Basic and diluted income (loss) per share	\$ (0.02)	\$ (0.01)	\$ (0.02)	\$ (0.00)
Basic and diluted weighted average shares	27,920,172	22,297,527	27,920,172	24,598,895

The accompanying notes are an integral part of these financial statements

HOUSTON AMERICAN ENERGY CORP.  
STATEMENTS OF CASH FLOWS  
(Unaudited)

	For the Six Months Ended	
	2007	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$	(437,213) \$
Adjustments to reconcile net loss to net cash from operations		
Depreciation and depletion		666,756
Stock based compensation		252,876
Change in fair value of derivatives		-
Amortization of debt discounts and deferred financing costs		-
Accretion of asset retirement obligation		1,254
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable		53,794
(Increase) decrease in prepaid expense		(95,570)
Increase (decrease) in accounts payable and accrued expenses		343,151
		785,048
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of marketable securities		3,000,000
Acquisition of oil and gas properties		(3,920,004)
		(920,004)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Sale of common stock, net of expenses		-
Exercise of warrants		-
Repayment of shareholder loan		-
		-
Net cash provided by financing activities		-
		(134,956)
Increase (decrease) in cash and equivalents		(134,956)
Cash, beginning of period		409,008
		274,052
Cash, end of period	\$	274,052 \$
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$	- \$

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

Conversion of convertible notes to common stock	\$	-	\$
	=====		=====
Exercise of warrants	\$	-	\$
	=====		=====

The accompanying notes are an integral part of these financial statements

5

HOUSTON AMERICAN ENERGY CORP.  
Notes to Financial Statements  
June 30, 2007  
(Unaudited)

NOTE 1. - BASIS OF PRESENTATION

The accompanying unaudited financial statements of Houston American Energy Corp., a Delaware corporation (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. They do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for a complete financial presentation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, considered necessary for a fair presentation, have been included in the accompanying unaudited financial statements. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

These financial statements should be read in conjunction with the financial statements and footnotes, which are included as part of the Company's Form 10-KSB for the year ended December 31, 2006.

NOTE 2. - CHANGES IN PRESENTATION

Certain financial presentations for the periods presented for 2006 have been reclassified to conform to the 2007 presentation.

NOTE 3. - RECENT ACCOUNTING PRONOUNCEMENTS

On February 15, 2007, the Financial Accounting Standards Board issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," which gives companies the option to measure eligible financial assets, financial liabilities and firm commitments at fair value (i.e., the fair value option), on an instrument-by-instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a firm commitment. Subsequent changes in fair value must be recorded in earnings. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. We are in the process of evaluating the impacts, if any, of adopting this pronouncement.

NOTE 4. - MARKETABLE SECURITIES

At June 30, 2007 the Company held \$11,000,000 in marketable securities, which consisted of investments in corporate and municipal bonds. The Company accounts for its investments in marketable securities pursuant to SFAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities", and has classified all of its marketable securities as available-for-sale. Accordingly, the investments are carried at fair market value with unrealized gains and

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

losses, net of tax, reported as a separate component of stockholders equity. Realized gains and losses and declines in value determined to be other than temporary in nature are included in interest income, net. There were no unrealized gains or losses associated with these marketable securities at June 30, 2007. There were no realized gains and losses recorded during the six month period ending June 30, 2007.

6

### NOTE 5. - STOCK-BASED COMPENSATION EXPENSE

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards 123R, "Share-Based Payments", or SFAS 123R. The Company periodically grants options to employees, directors and consultants under the Company's 2005 Stock Option Plan. These are accounted for in accordance with the provisions of SFAS 123R and Emerging Issues Task Force Abstract No. 96-18, "Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring or in Conjunction with Selling, Goods or Services" as well as other authoritative accounting pronouncements. The Company is required to make estimates of the fair value of the related instruments and recognize expense over the period benefited, usually the vesting period.

A summary of stock option activity and related information for the six months ended June 30, 2007 is presented below:

	Options	Weighted-Average Exercise Price		Aggregate Intrinsic Value
	-----	-----		-----
Outstanding at January 1, 2007	309,000	\$ 2.89		774,900
Granted May 21, 2007	30,000	5.45		-
Exercised	-	-		-
Forfeited	-	-		-
	-----			
Outstanding at June 30, 2007	339,000	\$ 3.12	\$	774,900
	=====			
Exercisable at June 30, 2007	272,333	\$ 3.15	\$	613,567
	=====			

The aggregate fair value of the options issued on May 21, 2007 with immediate vesting was \$143,000 based upon the Black-Scholes option pricing model using the following estimates: 5.24% risk free rate, 88% volatility and a 10 year expected life.

The following table reflects share-based compensation recorded by the Company for the six months ended June 30, 2007 and 2006:

	Six Months Ended June 30,	
	-----	-----
	2007	2006
	-----	-----
Share-based compensation expense included in reported net loss	\$ 252,876	\$ 45,200
Earnings per share effect of share-based compensation expense	\$ (0.01)	\$ -
	=====	=====

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

The following table reflects share-based compensation recorded by the Company for the three months ended June 30, 2007 and 2006:

	Three Months Ended June 30,	
	2007	2006
Share-based compensation expense included in reported net loss	\$ 197,988	\$ 45,200
Earnings per share effect of share-based compensation expense	\$ (.01)	\$ -
	=====	=====

7

### NOTE 6. - GEOGRAPHICAL INFORMATION

The Company currently has operations in two geographical areas, the United States and Colombia. Revenues for the six months ended June 30, 2007 and Long Lived Assets as of June 30, 2007 attributable to each geographical area are presented below:

Six Months Ended June 30, 2007			
	Revenues		Long Lived Assets, Net
United States	\$ 130,430	\$	2,264,611
Colombia	1,854,655		6,236,908
	\$ 1,985,085	\$	8,501,519

### NOTE 7. -SUBSEQUENT EVENTS

#### Executive Compensation

In July 2007, the Company's Compensation Committee approved the payment of cash bonuses to the Company's President, in the amount of \$50,000, and the Company's Chief Financial Officer, in the amount of \$30,000, and approved an increase in base salary of each, effective July 1, 2007, with the salary of the Company's President increasing from \$300,000 to \$315,000 and the salary of the Company's Chief Financial Officer increasing from \$125,000 to \$150,000.

In conjunction with the actions of the Compensation Committee regarding the payment of bonuses and increase in base salary, the Compensation Committee also approved grants of restricted stock to the Company's President (41,700 shares) and the Company's Chief Financial Officer (13,900 shares). The issuance of shares pursuant to the grants of restricted stock, as approved by the Compensation Committee, is subject to satisfaction of various contingencies including receipt of shareholder approval and confirmation of compliance with applicable Nasdaq corporate governance provisions.

#### Possible Hupecol Transaction



-----  
On July 17, 2007, management of the Company was advised that Hupecol LLC ("Hupecol") had retained an investment bank for purposes of evaluating a possible transaction (a "Transaction") involving the monetization of Hupecol assets. The Transaction may involve the sale of some or all of the assets and operations of Hupecol, an exchange or trade of assets, a public offering or other similar transaction and may be effected in a single transaction or a series of transactions.

The Company is an investor in Hupecol and the Company's interest in the assets and operations of Hupecol represent all of the Company's assets and operations in Colombia and are the principal assets and operations of the Company. The Company's management intends to closely monitor the nature and progress of the Transaction in order to protect the interests of the Company and its shareholders. However, the Company has no effective ability to alter or prevent a Transaction and is unable to predict whether or not a Transaction will in fact occur or the nature or timing of any such Transaction. Further, the Company is unable to estimate the actual value that it might derive from any such Transaction and whether any such Transaction will ultimately be beneficial to the Company and its shareholders.

8

Possible Hupecol Credits  
-----

On August 2, 2007, the Company was advised that Hupecol would be adjusting the division of interests among the members of the various Hupecol entities to reflect revised Colombian tax allocations among those entities. Specifically, Hupecol advised the Company that Colombian tax attributes were allocated among the Hupecol entities without taking into account the specific contributions of each individual entity, resulting in a shifting of tax expenses and benefits among the Hupecol entities and, in turn, the members of each of the Hupecol entities.

Based on advice from Hupecol, the Company expects to receive a credit from Hupecol. The net credit to the Company from Hupecol is estimated to be approximately \$657,000. The accounting treatment of the credit to the Company has yet to be finalized and is subject to review of the final credit amount and accounting from Hupecol.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION

This Form 10-Q quarterly report of Houston American Energy Corp. (the "Company") for the six months ended June 30, 2007, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are intended to be covered by the safe harbors created thereby. To the extent that there are statements that are not recitations of historical fact, such statements constitute forward-looking statements that, by definition, involve risks and uncertainties. In any forward-looking statement, where the Company expresses an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the statement of expectation or belief will be achieved or accomplished.

The actual results or events may differ materially from those anticipated and as

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

reflected in forward-looking statements included herein. Factors that may cause actual results or events to differ from those anticipated in the forward-looking statements included herein include the Risk Factors described in Item 1 of the Company's Form 10-KSB for the year ended December 31, 2006.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, which speak only as of the date hereof. The Company believes the information contained in this Form 10-Q to be accurate as of the date hereof. Changes may occur after that date, and the Company will not update that information except as required by law in the normal course of its public disclosure practices.

Additionally, the following discussion regarding the Company's financial condition and results of operations should be read in conjunction with the financial statements and related notes contained in Item 1 of Part 1 of this Form 10-Q, as well as the Risk Factors in Item 1 and the financial statements in Item 7 of Part II of the Company's Form 10-KSB for the fiscal year ended December 31, 2006.

### CRITICAL ACCOUNTING POLICIES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The Company believes certain critical accounting policies affect its more significant judgments and estimates used in the preparation of its financial statements. A description of the Company's critical accounting policies is set forth in the Company's Form 10-KSB for the year ended December 31, 2006.

9

As of, and for the six months ended, June 30, 2007, there have been no material changes or updates to the Company's critical accounting policies other than the following updated information relating to Unevaluated Oil and Gas Properties:

-- UNEVALUATED OIL AND GAS PROPERTIES. Unevaluated oil and gas properties not subject to amortization include the following at June 30, 2007:

	June 30, 2007
Acquisition costs	\$ 185,503
Evaluation costs	53,530
Retention costs	79,983
Total	319,016

The carrying value of unevaluated oil and gas prospects include \$13,330 expended for properties in the South American country of Colombia at June 30, 2007. We are maintaining our interest in these properties and development has or is anticipated to commence within the next twelve months.

### CURRENT YEAR DEVELOPMENTS

Drilling Activity

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

During the six months ended June 30, 2007, the Company drilled 13 international wells in Colombia, as follows:

- Eight wells were drilled on concessions in which we hold a 12.5% working interest, of which one was being completed as of June 30, 2007, one was abandoned prior to reaching its target sands, one was converted to a water disposal well after an unsuccessful completion attempt, one was shut in due to mechanical problems, two were completed as producers and subsequently temporarily shut in due to weather conditions, and two were dry holes.
- Five wells were drilled on concessions in which we hold a 1.6% working interest, of which two were in production as of June 30, 2007, one was being completed as of June 30, 2007, one was a dry hole, and one completed well was shut in.

One domestic well, the Baronet #3, was drilled during the quarter ended, and was producing at, June 30, 2007. We hold a 17.5% working interest with a 13.125% net revenue interest in the Baronet #3.

At June 30, 2007 we planned to drill 13 additional international wells over the balance of 2007.

### Leasehold Activity

During the quarter ended June 30, 2007, we acquired no additional oil and gas interests.

### Seismic Activity

During the quarter ended June 30, 2007, we conducted no new seismic activity.

10

### Possible Hupecol Transaction

On July 17, 2007, our management was advised that Hupecol LLC ("Hupecol") had retained an investment bank for purposes of evaluating a possible transaction (a "Transaction") involving the monetization of Hupecol assets. The Transaction may involve the sale of some or all of the assets and operations of Hupecol, an exchange or trade of assets, a public offering or other similar transaction and may be effected in a single transaction or a series of transactions.

We are an investor in Hupecol and our interest in the assets and operations of Hupecol represent all of our assets and operations in Colombia and are our principal assets and operations. Our management intends to closely monitor the nature and progress of the Transaction in order to protect our interests. However, we have no effective ability to alter or prevent a Transaction and are unable to predict whether or not a Transaction will in fact occur or the nature or timing of any such Transaction. Further, we are unable to estimate the actual value that it might derive from any such Transaction and whether any such Transaction will ultimately be beneficial to our company and our shareholders.

### Possible Hupecol Credits

On August 2, 2007, the Company was advised that Hupecol would be adjusting the division of interests among the members of the various Hupecol entities to reflect revised Colombian tax allocations among those entities. Specifically, Hupecol advised the Company that Colombian tax attributes were allocated among the Hupecol entities without taking into account the specific contributions of each individual entity, resulting in a shifting of tax expenses and benefits among the Hupecol entities and, in turn, the members of each of the Hupecol

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

entities.

Based on advice from Hupecol, the Company expects to receive a credit from Hupecol. The net credit to the Company from Hupecol is estimated to be approximately \$657,000. The accounting treatment of the credit to the Company has yet to be finalized and is subject to review of the final credit amount and accounting from Hupecol.

### RESULTS OF OPERATIONS

**Oil and Gas Revenues.** Total oil and gas revenues increased 17% to \$959,662 in the quarter ended June 30, 2007 when compared to the quarter ended June 30, 2006. For the first six months of 2007, oil and gas revenues increased 33%, to \$1,985,085, when compared to the first six months of 2006.

The increase in oil and gas revenue for both the quarter and six months over 2006 is principally due to increased production resulting from the development of the Columbian fields. We had interests in 26 producing wells in Colombia three of which were temporarily shut in as of June 30, 2007, and 8 producing wells in the U.S. during the 2007 six month period as compared to 20 producing wells in Colombia and 14 producing wells in the U.S. during the 2006 six month period. As of June 30, 2007, two of the three Colombian wells were shut in due to an inability to transport the oil as a result of weather conditions and one was shut in due to mechanical problems.

The following table sets forth a comparison of hydrocarbon prices for the quarter and six month periods:

Hydrocarbon prices:	Quarter Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Oil - Average price per barrel	\$ 58.73	\$ 53.81	\$ 53.98	\$ 57.62
Gas - Average price per mcf	8.44	7.79	8.20	6.24

11

The following table sets forth a comparison of oil and gas sales by region for the quarter and six month periods.

		Quarter Ended June 30,		Six Months Ended June 30,	
		2007	2006	2007	2006
Sales:					
Oil	Colombia	\$ 890,735	\$ 636,395	\$ 1,854,655	\$ 1,082,872
	US	29,924	33,555	61,797	51,593
	Total - Oil	\$ 920,659	\$ 669,950	\$ 1,916,452	\$ 1,134,465
		=====	=====	=====	=====
Gas	Colombia	\$ -	\$ -	\$ -	\$ -
	US	39,003	153,442	68,633	355,099
	Total - Gas	\$ 39,003	\$ 153,442	\$ 68,633	\$ 355,099

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

=====

Lease Operating Expenses. Lease operating expenses, excluding joint venture expenses relating to our Colombian operations discussed below, increased 90% to \$488,246 in the 2007 quarter from \$256,385 in the 2006 quarter. For the six months ended June 30, 2007, lease operating expenses, excluding joint venture expenses, increased 99%, to \$894,813, compared to the 2006 six month period.

The increase in lease operating expenses was attributable to the increase in the number of Colombian wells we operated during 2007 (26 wells as compared to 20 wells). Additionally operations have increased in workovers as well as in the Dorotea and Cabiona areas. The company has a higher working interest in these areas (12.5%), which increased the amount of operating expense the company incurred during the period.

Lease Operating Expenses:	Quarter Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Colombia	\$ 465,611	\$ 212,270	\$ 849,655	\$ 358,047
U.S.	22,635	44,115	45,158	92,544
Total	\$ 488,246	\$ 256,385	\$ 894,813	\$ 450,591

Joint Venture Expenses. The Company's allocable share of joint venture expenses attributable to the Colombian Joint Venture totaled \$38,924 during the 2007 quarter and \$31,644 for the 2006 quarter. For the six months ended June 30, 2007, joint venture expenses for Colombia totaled \$66,441 as compared to \$81,568 for the six months ended June 30, 2006. The decrease in joint venture expenses was attributable to the operator reducing personnel working on the undrilled contracts areas.

Depreciation and Depletion Expense. Depreciation and depletion expense was \$394,978 and \$90,533 for the quarters ended June 30, 2007 and 2006, respectively, and \$666,756 and \$180,012 for the six months ended June 30, 2007 and 2006, respectively. The increase for both the quarter and six months is due to increases in Colombian production and a 93% increase in the depletable cost pool.

General and Administrative Expenses. General and administrative expense increased by 70% to \$521,142 during the quarter ended June 30, 2007 from \$305,862 in the 2006 quarter. For the six months ended June 30, 2007, general and administrative expenses increased 69%, to \$874,780, compared to the 2006 six month period. The increase in general and administrative expense was primarily attributable to increases in compensation expense relating to the hiring of our chief financial officer in mid-2006, an increase in salary to our President in mid-2006, an increase in compensation to directors in mid-2006 and stock-based compensation expense associated with the 2006 grant of stock options in connection with the hiring of our chief financial officer and the grants of options during 2007. Subsequent to June 30, 2007, we paid bonuses to our president and our chief financial officer, totaling \$80,000, and increased the base salaries of those officers by an aggregate of \$40,000. Those increases in compensation will be reflected in our general and administrative expenses beginning in the third quarter of 2007.

Other Income (Expense). Other income (expense) consists of interest earned on cash balances and marketable securities, net of financing costs in the nature of interest and deemed interest associated with outstanding shareholder loans and convertible notes and warrants issued in May 2005 and outstanding during the 2006 period. Certain features of the convertible notes and warrants resulted in the recording of a deemed derivative liability on the balance sheet and periodic interest associated with the deemed derivative liabilities and changes in the fair market value of those deemed liabilities.

Other income (expense), net totaled \$187,234 of income during the quarter ended June 30, 2007 as compared to net other expenses of \$(150,407) during the 2006 quarter. For the six months ended June 30, 2007, other income, net, totaled \$360,554 as compared to \$(319,240) of net other expenses during the 2006 six month period. The improvement in net other income (expense) resulted from (1) increased interest income during the 2007 six month period (\$360,554 in the 2007 six month period compared to \$77,883 in the 2006 six month period) attributable to substantial increases in cash and marketable securities held during the 2007 period following a 2006 private placement of common stock, and (2) the absence of interest expense, financing fees and derivative related expense during the 2007 period attributable to the retirement, or conversion, during 2006 of all outstanding shareholder loans and convertible notes.

Income Tax Expense. Income tax expense increased by 135% to \$139,688 during the 2007 quarter compared to the 2006 quarter. For the six months ended June 30, 2007, income tax expense increased 120%, to \$267,449, as compared to the 2006 period. The increase in income tax expense during the 2007 quarter and six month period was attributable to the increase in revenue in Colombia. Income tax expense during the 2007 and 2006 periods was entirely attributable to operations in Colombia. The Company recorded no U.S. income tax liability in the 2007 or 2006 periods.

#### FINANCIAL CONDITION

Liquidity and Capital Resources. At June 30, 2007 we had a cash balance of \$274,053 and working capital of \$10,765,829 compared to a cash balance of \$409,008 and working capital of \$14,202,160 at December 31, 2006. The decrease in cash and working capital during the period was primarily attributable to payment of drilling cost in Colombia and domestically in the United States.

Operating cash flows for the 2007 six month period totaled \$785,049 as compared to cash used by operations during the 2006 period of \$(174,424). The improvement in operating cash flow was primarily attributable to an increase in accounts payable.

Investing activities used \$920,004 during the 2007 six month period as compared to \$1,950,686 used during the 2006 period. The decrease in funds used in investing activities during the current period was primarily attributable to sale of marketable securities which partially funded increased oil and gas acquisition and drilling activities.

Financing activities provided \$14,677,833 during the 2006 six month period from the sale of common stock. We had no financing activities during the 2007 period.

Long-Term Liabilities. At June 30, 2007, we had long-term debt of \$40,700 as compared to \$38,816 at December 31, 2006. Long-term debt at June 30, 2007 and December 31, 2006 consisted of a reserve for plugging costs.

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

Capital and Exploration Expenditures and Commitments. Our principal capital and exploration expenditures relate to our ongoing efforts to acquire, drill and complete prospects. With the receipt of additional equity financing in 2006 and prior years, and the increase in our revenues, we expect that future capital and exploration expenditures will be funded principally through funds on hand and funds generated from operations.

During the first six months of 2007, we invested approximately \$3,920,000 for the acquisition and development of oil and gas properties, primarily consisting of (1) drilling of 13 wells in Colombia (\$2,338,721), and (2) the drilling of one domestic well in the United States (\$1,082,908).

At June 30, 2007, our only material contractual obligation requiring determinable future payments was a lease relating to the Company's executive offices which was unchanged when compared to the 2006 Form 10-KSB.

At June 30, 2007, our acquisition and drilling budget for the balance of 2007 totaled approximately \$1,263,000, which consisted of the drilling of 13 wells in Colombia. Our acquisition and drilling budget has historically been subject to substantial fluctuation over the course of a year based upon successes and failures in drilling and completion of prospects and the identification of additional prospects during the course of a year.

Management anticipates that our current financial resources combined with increases in revenues over the past year will meet our anticipated objectives and business operations, including planned property acquisitions and drilling activities, for at least the next 12 months without the need for additional capital. Management continues to evaluate producing property acquisitions as well as a number of drilling prospects. It is possible, although not anticipated, that we may require and seek additional financing if additional drilling prospects are pursued beyond those presently under consideration.

### OFF-BALANCE SHEET ARRANGEMENTS

We had no off-balance sheet arrangements or guarantees of third party obligations at June 30, 2007.

### INFLATION

We believe that inflation has not had a significant impact on operations since inception.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### COMMODITY PRICE RISK

The price we receive for our oil and gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Crude oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and gas have been volatile, and these markets will likely continue to be volatile in the future. The prices we receive for production depends on numerous factors beyond our control.

We have not historically entered into any hedges or other transactions designed to manage, or limit exposure to oil and gas price volatility.

#### INTEREST RATE RISK

## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

We invest funds in excess of projected short-term needs in interest rate sensitive securities, primarily fixed maturity securities. While it is generally our intent to hold our fixed maturity securities to maturity, we have classified a majority of our fixed maturity portfolio as available-for-sale. In accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," our available-for-sale fixed maturity securities are carried at fair value on the balance sheet with unrealized gains or losses reported net of tax in accumulated other comprehensive income.

Increases and decreases in prevailing interest rates generally translate into decreases and increases in fair values of fixed maturity securities. Additionally, fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, the liquidity of the instrument and other general market conditions. Because of the short-term nature of the interest bearing investments, the quality of the issuers and the intent to hold those investments to maturity, we do not believe we face any material interest rate risk with respect to such investments.

### ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our chief executive officer ("CEO") and chief financial officer ("CFO"). Based on this evaluation, our management, including the CEO and CFO, concluded that our disclosure controls and procedures were not effective at June 30, 2007.

During the quarter ended June 30, 2007, there were no changes in our internal controls over financial reporting that materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

Management notes that the Company continues to lack adequate segregation of duties in our financial reporting process, as our CFO serves as our only internal accounting and financial reporting personnel and, as such, performs all accounting and financial reporting functions. Accordingly, the preparation of financial statements and the related monitoring controls surrounding this process were not segregated.

We have no current plans to add accounting or financial reporting personnel and, accordingly, expect to continue to lack segregation of accounting, financial reporting and oversight functions. As operations increase in scope, we intend to evaluate hiring additional in-house accounting personnel so as to provide for appropriate segregation of duties within the accounting function.

15

## PART II

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Meeting of Stockholders held on May 21, 2007, the following proposals were adopted by the margins indicated:

1. To elect the following directors:

Number of Shares

-----



## Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

	For -----	Withheld -----
O. Lee Tawes III	16,105,918	230,200
Edwin Broun III	16,105,918	230,200
Stephen Hartzell	16,105,918	230,200

In addition to the foregoing directors elected at the Annual Meeting, the terms as director of John Terwilliger and John Boylan continued after the Annual Meeting.

2. To ratify the appointment of Malone & Bailey, PC, certified public accountants, as our independent auditors for the fiscal year ending December 31, 2007.

For	16,323,418	
Against	5,100	
Abstain	7,600	

16

### ITEM 6. EXHIBITS

Exhibit Number -----	Description -----
31.1	Certification of CEO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of CFO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on behalf by the undersigned thereunto duly authorized.

HOUSTON AMERICAN ENERGY CORP.

By: /s/ John Terwilliger  
John Terwilliger  
CEO and President

By: /s/ James J. Jacobs

Edgar Filing: HOUSTON AMERICAN ENERGY CORP - Form 10-Q

James J. Jacobs  
Chief Financial Officer

Date: August 13, 2007