
II. Respondents have submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over them and the subject matter of these proceedings, which are admitted, and except as provided herein in Section IV.H, Respondents consent to the entry of this Order Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Section 8A of the Securities Act of 1933 and Section 21C of the Securities Exchange Act of 1934 ("Order"), as set forth below.
III.

On the basis of this Order and Respondents’ Offer, the Commission finds\(^1\) that:

**RESPONDENTS**

1. Houston American is a Delaware corporation headquartered in Houston, Texas. It was incorporated in 2001, and its common stock is registered pursuant to Section 12(b) of the Exchange Act. Between July 2007 and July 2010, its common stock was listed on the Nasdaq Capital Market under the ticker symbol “HUSA.” It is currently listed on the NYSE MKT.

2. Terwilliger resides in Houston, Texas. Terwilliger has been Houston American’s President and Chief Executive Officer since the company was formed in 2001. At all relevant times, Terwilliger was Houston American’s largest individual shareholder, and his shares were pledged as collateral on a margin trading account.

**OTHER RELEVANT ENTITIES**

3. The entity described herein as the “Investment Bank” is a full-service investment bank and registered broker-dealer with a principal place of business in New Orleans, Louisiana. The Investment Bank acted as the placement agent for Houston American’s December 2009 registered offering.

4. The individual identified herein as the “Independent Research Analyst” is an independent equity research analyst who owns and operates an entity that publishes, markets, and distributes the Independent Research Analyst’s research reports.

5. The entity described herein as the “Operator” is a division of a South Korean conglomerate based in Seoul, South Korea. During the relevant time period, the Operator had offices in Seoul and in Bogotá, Colombia.

**FACTS**

*Overview of Houston American’s Misrepresentations and Omissions Concerning the CPO-4 Block*

6. In late 2009, Houston American announced that it had entered a farm-out agreement with the Operator, pursuant to which Houston American obtained a 25% non-

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\(^1\) The findings herein are made pursuant to Respondents’ Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.
operating interest in a 345,452 acre oil and gas exploration and production area in Colombia’s Llanos Basin. The exploration and production area is known as the “CPO-4 block.”

7. In the months that followed, Houston American, Terwilliger, and their agents promoted Houston American’s interest in the CPO-4 block with a series of fraudulent statements and omissions that materially exaggerated the block’s value to Houston American and downplayed any associated risks. Among other things, Houston American and Terwilliger, directly and through their agents or other third parties, fraudulently asserted that the block contained “estimated recoverable reserves of 1 to 4 billion barrels” of oil, that the oil was worth between $20 and $25 per barrel “in the ground,” and thus that the block was worth more than $3 billion—the equivalent of at least $100 per share—to Houston American.

8. Houston American’s reserve estimates lacked any reasonable basis in fact. Terwilliger admitted in sworn testimony that he knew the CPO-4 block had no reserves at all and that the Operator’s volume estimates, which conveyed a much greater degree of risk than Houston American’s reserve estimates, ranged only from 300 million barrels to approximately one billion barrels. Terwilliger further admitted that, unlike the Operator’s volume estimates, which were drawn from extensive regional well data and seismic information for the CPO-4 block, Houston American’s multi-billion-barrel reserve estimates were not based on a technical evaluation at all.

9. Terwilliger and Houston American nonetheless based their multi-billion-barrel reserve estimates on, at most, Terwilliger’s recklessly wishful thinking. They also failed to disclose, or else baldly mischaracterized, the Operator’s volume estimates, and used the fraudulently exaggerated estimates to lay the groundwork for their claims about the block’s value.

10. Similarly, Terwilliger and Houston American knew or were reckless in not knowing that the $20 to $25 per barrel valuation, which Terwilliger used to support his claim that the CPO-4 block was worth upwards of $100 per share to Houston American, referred to quantities of oil that were in production from commercially viable wells (i.e., to reserves) and not to quantities of oil on speculative plays like the CPO-4 block. Yet Terwilliger and Houston American knowingly or recklessly claimed that the valuation was appropriate for the CPO-4 block.

11. Between November 2009 and April 2010, a period during which Houston American and Terwilliger employed multiple fraudulent statements and omissions in connection with their efforts to promote the company’s interest in the CPO-4 block, Houston American’s stock price increased from approximately $4.00 per share to $20.00 per share, and its market capitalization increased from less than $150 million to more than $600 million.
12. As the truth about the CPO-4 block emerged, Houston American’s stock price plummeted. In 2013, Houston American withdrew from its participation in the CPO-4 block after the Operator drilled three dry wells on, and produced no oil from, the block.

13. Houston American now trades for approximately $0.40 per share, which represents a market capitalization loss of $600 million since the April 2010 high.

**Common Industry Practices and Terminology**

14. In the oil and gas industry, the term “resources” is the principal catch-all term used to describe a quantity of petroleum, whether such quantity is discovered or undiscovered, recoverable or unrecoverable, or conventional or unconventional. The term encompasses four commonly-recognized classes of potentially recoverable petroleum quantities: oil in production, reserves, contingent resources, and prospective resources. The table below, which is taken from the Petroleum Resource Management System (“PRMS”), illustrates the relationship between the various classes of recoverable resources:

15. As shown by the horizontal rows on the PRMS table, the term “prospective resources” describes a quantity of undiscovered petroleum, and thus a quantity with the lowest chance of ultimate commerciality (i.e., the class with the highest degree of risk). The term “contingent resources” describes a quantity of discovered but sub-commercial petroleum. The term “reserves” describes an estimated petroleum quantity that has been discovered and deemed to be commercial, and thus a quantity with the greatest chance of commerciality (i.e., the class with the lowest degree of risk).
16. Ordinarily, a petroleum quantity must meet four criteria in order to qualify as a reserve: it must be discovered, technically recoverable, commercial, and remaining.

17. Reading from left to right, the table uses modifiers to indicate progressively increasing levels of uncertainty that the estimated quantities will actually be recovered. For reserves, the modifiers are “proved,” “probable,” and “possible”; for prospective resources, they are “low estimate,” “best estimate,” and “high estimate.” Under the rules of the Commission, a “proved reserve” is a reserve that “by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible.” Both the PRMS guidelines and the Commission rules define “reasonable certainty” as a “high degree of confidence that the quantities will be recovered.” A “probable reserve” is “less certain to be recovered than proved reserves” but is “as likely as not to be recovered.” A “possible reserve” is a reserve quantity that is less certain to be recovered than a probable reserve.

18. While each of the modifiers expresses a different degree of uncertainty, the modifiers do not alter the underlying definition of the relevant class: unlike recoverable resources, all categories of reserves—whether proved, probable, or possible—are quantities that are recoverable from known accumulations under existing economic conditions. By contrast, all categories of prospective resources are undiscovered.

19. In the oil and gas industry, commonly-used analytical procedures for estimating recoverable quantities of petroleum in exploration-stage projects draw on a wide range of geological and other physical characteristics of the target reservoir and analog wells, including the approximate depth, pressure, temperature, reservoir drive mechanism, original fluid content, reservoir fluid gravity, reservoir size, gross thickness, pay thickness, net-to-gross ratio, lithology, heterogeneity, porosity, permeability, and development plan.

The Operator Evaluates the CPO-4 Block

20. In late 2008, the Operator obtained from the Colombian government exploration and production rights on the CPO-4 block in exchange for a work commitment. The Operator’s work commitment required it to shoot and process additional seismic data on the CPO-4 block and to drill multiple exploration wells within a six-year period. The agreement also required the Operator to pay the Colombian government a royalty for any oil that the Operator successfully produced on the CPO-4 block.

21. Before entering the agreement with the Colombian government, the Operator spent several months evaluating the CPO-4 block’s oil-bearing potential. As part of that process, the Operator reviewed well log data from the only well that had been drilled on the CPO-4 block and also reviewed well log data from multiple wells drilled on adjacent blocks (the “well log data”). The Operator also analyzed approximately 1,825 kilometers of two-dimensional seismic
data that previously had been shot over the block, and it evaluated comprehensive reports of the known geological formations in the Llanos Basin.

22. The Operator based its evaluation of the CPO-4 block on an analysis of well log and seismic data, which provided important technical information about the block’s subsurface structure and its geological characteristics.

23. Well log data, which is collected from an array of tests conducted in a drilled well bore, includes, among other things, data and information about the porosity of potential reservoirs (i.e., the percentage of the total rock or reservoir taken up by “pore” space, and thus the percentage that has the ability to hold a fluid) and the fluid saturation of potential reservoirs (i.e., the percentage of the pore space that holds water, and thus displaces oil). Seismic data allows geoscientists to estimate the size and location of potential oil-bearing reservoirs based on features of the subsurface geology.

24. The Operator used the seismic and well log data, in conjunction with standard analytical procedures for estimating volumes of potentially recoverable petroleum, in its evaluation the CPO-4 block.

25. Based on the geological properties of the CPO-4 block, as discerned in part from its evaluation of well log data, the Operator estimated that it could expect to recover approximately 150 barrels of oil from each “acre foot” (i.e., an area one acre square and one foot deep) of the CPO-4 block’s potential accumulations. By analyzing the seismic data, the Operator further estimated that the CPO-4 block had approximately 6.5 million acre feet of potential oil-bearing sands at three different depth horizons.

26. On the basis of those data points, the Operator estimated that the CPO-4 block’s potential ranged from 300 million barrels of oil to a “total potential” of 974 million barrels. The Operator further estimated that the block had a “high potential” of approximately 639 million barrels.

27. The Operator did not publicly disclose its estimates for the CPO-4 block, but did share them with Houston American and Terwilliger in late 2009. At no time did the Operator share with Houston American an estimate of more than one billion barrels.

Houston American Farms In to the CPO-4 Block

28. In April 2009, the Operator sought a minority, non-operating farm-in partner on the CPO-4 block in order to offset costs associated with the exploration program for the CPO-4 block. As part of the search, the Operator created a three-page summary document that described the CPO-4 block and depicted the nature and extent of the Operator’s evaluation.
Among other things, the summary document stated that the CPO-4 block had “Total 1 Billion [Barrels of Oil] Potential” and “300 [Million Barrels of Oil] Risked Reserve Potential.”

29. Houston American and Terwilliger received and reviewed a copy of the summary document in April 2009.

30. Shortly thereafter, Terwilliger met with the Operator’s representatives to discuss the potential farm-in opportunity.

31. In addition to the summary document, the Operator compiled a 55-page slide deck that provided information about the basis of the Operator’s estimates for the CPO-4 block and about the process it had used to evaluate the block’s potential.

32. Among other things, the slide deck depicted the process by which the Operator came to estimate the block’s “total potential” of 974 million barrels and its “high potential” estimate of 639 million barrels.

33. The slide deck included information that was sufficient to show that the Operator’s estimates were based on its evaluation of, among other things, block-specific data about the subsurface structure and geological characteristics of potential oil-bearing sands on the CPO-4 block.

34. The slide deck also included information that was sufficient to show that the Operator had arrived at its estimates of the CPO-4 block’s “total potential” and “high potential” by using standard analytical procedures for estimating quantities of potentially recoverable oil.

35. Terwilliger received and reviewed a copy of the Operator’s slide deck.

36. According to Terwilliger’s sworn testimony, Houston American and Terwilliger understood that the Operator’s estimates were based on “a lot of good work” and that they conformed to “traditional industry practices.”

37. Terwilliger and Houston American also understood that the Operator’s estimates were based on an extensive evaluation of the regional well log data and seismic data for the CPO-4 block. Terwilliger stated in sworn testimony that “[the Operator] acquired all the available seismic data from the government that they could get . . . . They then reprocessed all the seismic data using . . . their geophysicist, and then they brought together a team of interpreting geoscientists and geologists to interpret the data and identify potential closures within the block.”

38. However, Terwilliger admitted that he was not conversant in the technical aspects of the Operator’s estimates. When asked in testimony about the key geological inputs that the
Operator had used to derive its volume estimates (i.e., porosity, saturation, formation volume factor, recovery factor), Terwilliger stated that he was “not sure of all these designations” and “I’m not a petroleum engineer, so I’d have to refer to one. . . .”

39. Terwilliger and Houston American did not independently evaluate relevant geological or seismic data for the CPO-4 block or analyze analogous well log data.

40. After reviewing the Operator’s slide deck, Houston American submitted a firm offer to acquire a 25% non-operating farm-in interest on the CPO-4 block. The Operator and Houston American entered a farm-in agreement in July 2009, and the Colombian government approved Houston American’s participation in October 2009.

Houston American’s November 2009 Investor Presentation Uses False and Misleading Statements to Publicize Its Interest in the CPO-4 Block

41. On October 16, 2009, Houston American publicly announced that it had finalized the farm-in agreement with the Operator. The announcement described the CPO-4 block in general terms, but did not include estimates of the block’s potential.

42. On October 29, 2009, the Operator delivered to Houston American the 2010 development budget for the CPO-4 block, which included $31 million of expenses heavily concentrated in the first quarter of 2010. Houston American’s obligations for the first quarter of 2010 alone were approximately $5 million. At the time, Houston American’s public filings showed it to have less than $5 million in cash, and only $5.8 million in total current assets.

43. On November 10, 2009, Houston American publicly released an investor presentation that included 16 slides about the CPO-4 block and the Operator. According to Terwilliger, Houston American created the investor presentation because the “acquisition of the interest in CPO-4 Block . . . was a transitional moment for Houston American. So we took that moment to put a brochure together and go out and try to tell the story.”

44. The investor presentation, which was furnished as an exhibit to a Form 8-K that Houston American filed with the Commission, described the CPO-4 block, and, as shown on the slide below, stated that the block “consists of 345,452 net acres and contains over 100 identified leads or prospects with estimated recoverable reserves of 1 to 4 billion barrels.”
45. Houston American’s reserve estimate, as reflected in the November 2009 Investor Presentation, was materially false and misleading in a number of respects.

46. By using the term “reserves,” the investor presentation implied that Houston American’s multi-billion-barrel estimate was supported by project-specific data and that it referred to discovered, commercially producible petroleum accumulations. However, Houston American’s estimate was not in fact supported by such data and analysis, did not refer to discovered, commercially producible petroleum accumulations, and was in fact more than three times larger than the Operator’s volume estimates.

47. Despite the clear language of the investor presentation, Terwilliger admitted under oath that “[t]here are no reserves on the CPO-4 block,” and that Houston American’s widely-disseminated, multi-billion-reserve estimate had “nothing to do with reserves.” (Emphasis added.)

48. Houston American’s investor presentation also implied that the multi-billion-barrel reserve estimate was derived from “100 identified leads or prospects.” Because leads or prospects are ordinarily identified through an evaluation of seismic data, the use of “leads and prospects” in the context of Houston American’s multi-billion-barrel reserve estimate gave the misleading impression that the estimate was grounded in a technical evaluation of the block.
49. In addition to the false and misleading reserve estimates, the investor presentation also included a number of slides that highlighted the Operator’s size and expertise, and the extent of its work in evaluating the CPO-4 block. Among other things, those slides, which immediately preceded the slide depicted above:

- stated that the Operator was the “undisputed leader” in the petrochemical business in South Korea;
- claimed that the Operator participated in 34 oil and gas blocks and four liquefied natural gas blocks, including 11 blocks in South America;
- depicted some of the wells the Operator had evaluated in its study of the CPO-4 block, including the well previously drilled on the CPO-4 block and approximately 14 others on adjacent blocks;
- summarized the Operator’s assessment of seismic and well log data on the block; and
- expressly referred to six months of work that the Operator had spent evaluating data relevant to the CPO-4 block.

50. The investor presentation failed to disclose that Houston American’s multi-billion-barrel reserve estimate was much larger than the Operator’s volume estimates. By describing the Operator’s size, sophistication and expertise, as well as the extent of its evaluation of the CPO-4 block, the investor presentation misleadingly implied that the multi-billion-barrel reserve estimate was backed by the Operator, that it had been drawn from the Operator’s analysis of the block, and that it was appropriately characterized as a “reserve.”

**Houston American And Terwilliger Disseminate False And Misleading Information About The CPO-4 Block Through A Paid Stock Promoter**

51. Shortly before releasing the investor presentation, Houston American retained Undiscovered Equities, a marketing firm operated by Kevin McKnight that specialized in small-cap stock promotion. According to Terwilliger, Houston American retained Undiscovered Equities in order to “create more investor awareness using [Undiscovered Equities’] sources.”

52. The consulting agreement between Houston American and Undiscovered Equities stated that Undiscovered Equities would assist in “the implementation and maintenance of an ongoing program to increase the investment community’s awareness” of Houston American. In exchange, Houston American paid Undiscovered Equities $20,000 per month for at least six months.
53. Beginning in November 2009, Undiscovered Equities posted to its website and distributed to its subscribers a series of promotional articles about Houston American and the CPO-4 block. On November 29, 2009, Undiscovered Equities posted its list of “Top Picks for 2010,” which included Houston American. The posting falsely stated that “[the Operator] believes the CPO 4 Block has over 100 viable drilling locations with estimated recoverable reserves of 1-4 billion barrels.” (Emphasis added.)

54. Terwilliger and Houston American intentionally or recklessly provided McKnight and Undiscovered Equities with the false and misleading statements about the Operator’s “belief” concerning the CPO-4 block. They knew or were reckless in not knowing that McKnight and Undiscovered Equities would use the false and misleading statements in connection program to “increase the investment community’s awareness” of Houston American.

55. Undiscovered Equities repeated identical claims about the Operator’s “belief” in a series of posts over the course of the next three months. Undiscovered Equities also posted anonymous messages to internet message boards for Houston American that directed potential investors back to the articles about Houston American on Undiscovered Equities’ website.

56. On its website, Undiscovered Equities and McKnight disclosed that Undiscovered Equities was compensated by Houston American but did not disclose the amount of compensation it received. Neither the promotional articles, in the form distributed to the subscribers, nor the anonymous posts to internet message boards disclosed any information about the fact or amount of compensation that Undiscovered Equities received from Houston American.

Houston American Disseminates False and Misleading Information About the CPO-4 Block During Meetings With Potential Investors

57. In November 2009, Houston American and Terwilliger used the investor presentation in a series of in-person roadshow meetings with institutional investors in Dallas, Detroit, and Chicago. During those meetings, Terwilliger repeated and embellished Houston American’s false and misleading claims about the CPO-4 block.

58. At a November 20, 2009 roadshow meeting with a portfolio manager for an institutional investor, Terwilliger said that:

- the CPO-4 block was “Mr. Big for us”;

- *the Operator* believed the block had between *three and four billion* barrels of recoverable oil; and
• Houston American believed that the block had between one and five billion barrels.

59. A few days later, Terwilliger met in Dallas with a different institutional investor. During that meeting, Terwilliger said that the Operator’s estimate for the CPO-4 block was 3.5 billion barrels and that Houston American “used a range” of one to five billion barrels.

60. Terwilliger’s statements during the roadshow meetings misrepresented the Operator’s actual estimates for the CPO-4 block, and omitted to state that, unlike the Operator’s estimates, Houston American’s multi-billion-barrel estimate was not based on block-specific data and was not calculated in accordance with standard analytical procedures.

**Houston American’s Agents Disseminate False and Misleading Information About The CPO-4 Block**

61. Houston American raised approximately $13 million in a December 1, 2009 public offering, for which the Investment Bank acted as placement agent.

62. Prior to the offering, Terwilliger met with the Investment Bank’s Sales & Trading group and discussed the November 2009 investor presentation. One member of the Sales & Trading group, Sales Representative 1, recalled attending the presentation and hearing the “eye-popping” reserve estimates.

63. After the meeting, and in connection with the public offering, the Investment Bank’s Sales & Trading group sent dozens of its institutional clients e-mail messages based on Terwilliger’s and Houston American’s false and misleading claims about the CPO-4 block.

64. On the morning of the offering, two members of the Sales & Trading group sent e-mail messages about Houston American to more than fifty of the bank’s clients. In one such message, a sales representative for the Investment Bank, Sales Representative 2, stated:

   The key is the CPO 4 property that they are partnering on with [the Operator] (largest player in Korea and one of largest in all Asia). The CEO truly believes the potential of the property is 3-5 billion barrels of oil but if we assume it’s 1 billion barrels here is some quick math: ... $4.725bil and with 24mil shares out for HUSA we get $195/share value. This seems ridiculous since the stock is under $5 but that’s the math.

65. Sales Representative 1 also sent an e-mail to his clients and to the entire Sales & Trading group under the subject line “HUSA-some crazy math.” The e-mail stated:
I will go through the most sexy property first. . . . [the Operator] has estimated potential of 3-5 Billion barrels of oil under [the CPO-4 block]. . . . I would like to lay out what this would mean to HUSA: Let’s say there are only 1 Billion barrels of oil in the ground:
The Colombian government gets 30% off the top (country standard)
Leaves 700MM barrels of oil, x .25 (HUSA WI)=175MM barrels of oil
175MM barrels x $27 (this was the price for Cara-Cara, based at $85 price deck=$4.725B to HUSA
$4.725B/24MM shares out=~$200/share to HUSA.

66. The Investment Bank sold 490,000 shares in the offering to investors who received Sales Representative 1’s e-mail message.

67. Together, the e-mail messages of Sales Representative 1 and Sales Representative 2 incorporated and repeated at least four fraudulent misrepresentations and omissions made by Houston American and Terwilliger:

- the Operator, not Houston American, was the source of the multi-billion-barrel estimate (“[The Operator] has estimated potential of 3-5 Billion barrels of oil”);
- one billion-barrels was a conservative estimate, rather than the high end of the Operator’s range (“if we assume it’s 1 billion barrels” and “Let’s say there are only 1 Billion barrels of oil in the ground”);
- the putative reserves were worth more than $20 per barrel in the ground;
- the CPO-4 block was worth in excess of $100 per share to Houston American’s investors.

68. In the days after the offering, several members of the Investment Bank’s Sales & Trading team reiterated similar statements about the CPO-4 block in a series of communications with potential investors.

69. Houston American and Terwilliger knew or were reckless in not knowing that members of the Sales & Trading group would repeat the false and misleading statements and omissions about the CPO-4 block in communications with potential investors.
On February 15, 2010, the Independent Research Analyst published a report on Houston American that repeated the company’s multi-billion-barrel estimate and that assigned a price target of $168 per share to Houston American’s common stock. In a section entitled “CPO-4: ‘Mind-Boggling,’” the research report stated that the CPO-4 block was worth between $67 and $269 per share to Houston American.

The valuation in the Independent Research Analyst’s report was premised on two assumptions: that the CPO-4 block held between one and four billion barrels of oil and that the oil was worth between $20 and $25 per barrel in the ground. The report expressly attributed the latter assumption to Houston American: “HUSA believes CPO 4 oil in the ground is worth $20/25/bbl.”

The content of the research report is directly attributable to Houston American and Terwilliger. In the days before the report was published, Terwilliger spoke with the Independent Research Analyst by phone and stated that:

- the CPO-4 block contained between one and four billion barrels of oil;
- the Operator believed the CPO-4 block contained “up to 3.5 billion barrels” of “recoverable” oil; and
- oil on the CPO-4 block was worth between $20 and $25 per barrel in the ground and had a value of at least $3 billion, or $100 per share, to Houston American.

Consequently, the report’s valuation of the CPO-4 block was based on false and misleading statements that Terwilliger made to the Independent Research Analyst. Terwilliger and Houston American knew or were reckless in not knowing that the Independent Research Analyst would repeat the false and misleading statements and omissions about the CPO-4 block in subsequent communications with potential investors.

The Independent Research Analyst distributed the report to certain of his clients. In addition, a member of Houston American’s board of directors, who is an Executive Vice President of a financial services firm based in New York, disseminated the report to the sales force at the financial services firm. One investor reported back to him that the report had become the subject of “cocktail party chatter.”

The next day, on February 16, 2010, an article published by Dow Jones Newswires noted a spike in Houston American’s stock price.
Houston American’s and Terwilliger’s Multi-Billion-Barrel Estimates Were Not Reasonably Based In Fact

76. Terwilliger and Houston American knowingly or recklessly tripled the Operator’s estimates for the CPO-4 block and knowingly or recklessly assigned a valuation of between $20 and $25 per barrel for oil in the ground.

77. The document below is a page from the Operator’s slide deck. The version of the page below contains Terwilliger’s handwritten notes, which he made in November 2009. The notes reflect Terwilliger’s contemporaneous assertion that the Operator’s “recovery” should be ("S/B") 500 barrels per acre foot rather than 150, and thus that the estimate of recoverable oil should be ("S/B") 3.246 billion barrels.

78. At no time did Terwilliger and Houston American disclose that they had arrived at their multi-billion-barrel reserve estimate by doing nothing more than tripling the Operator’s estimates.
79. Nor did Terwilliger and Houston American disclose that their multi-billion-barrel reserve estimate was based on Terwilliger’s beliefs about what the estimates “should be,” rather than on an analysis of the geological data pertinent to the CPO-4 block.

80. As alleged above, Terwilliger knew that the Operator’s estimates were based on its extensive evaluation of the CPO-4 block and that its evaluation of the block conformed to standard industry practices. Moreover, Houston American and Terwilliger had not independently evaluated the well log or seismic data.

81. During the Division’s investigation, Terwilliger sought to defend his and Houston American’s decision to more than triple the Operator’s estimates, testifying under oath that:

- “[I]n the Llanos Basin, throughout the entire basin, we use 500 barrels per acre-foot recovery. Everyone else does.”
- “[the Operator] just stuck 150 barrels. They just applied some very conservative worldwide assumptions;”
- “150 barrels per acre-foot is not recoveries for Colombia, so [the Operator’s] report is really a three billion barrel estimate;” and
- “I’m only saying that in ten years in Colombia being involved in over 130 wells and looking at assets all over the basin, I’ve never seen 150 barrels per acre-foot. Even in the worst wells . . . 300 is probably . . . the lowest I can ever remember seeing. So I discounted [the Operator’s] assumptions and said, you know, I’m not going to go through all the engineering models to get there. It’s just very unrealistic.”

82. However, based on his review of the Operator’s slide deck in 2009, Terwilliger knew or was reckless in not knowing that the Operator’s estimate was based on its extensive evaluation of the CPO-4 block, and therefore was not drawn from “some very conservative worldwide assumptions” and was not “really a three billion barrel estimate.”

83. Terwilliger also knew or was reckless in not knowing that a recovery rate of 150 barrels per acre foot (‘BAF”) was consistent with rates seen in other parts of the Llanos Basin, and thus could not be disregarded on the grounds that 150 BAF was “not recoveries for Colombia.”

84. Terwilliger likewise knew or was reckless in not knowing that Houston American and “everyone else” did not “use 500 barrels per acre-foot” throughout the Llanos Basin.
85. In 2009, Houston American had an interest in a total of 32 wells or potential wells on five different exploration and production concessions in the Llanos Basin, including concessions known the Las Garzas, La Cuerva, and Leona. Of the 32 prospects, 11 were estimated by oil and gas reserve engineers retained by Houston American’s business partners to have recoveries of between 100 and 200 BAF. Thirteen others were estimated to have recoveries of between 200 and 300 BAF, and only three were estimated to have recoveries of more than 400 BAF.

86. Accordingly, Terwilliger knew or was reckless in not knowing that the Operator’s estimate of 150 BAF was consistent with the rates of recovery for Llanos Basin wells in which Houston American owned an interest in 2009.

87. When presented with evidence about estimated recoveries from those wells, Terwilliger admitted under oath that, of the five exploration and production concessions in Colombia in which Houston American held an interest in 2009 other than the CPO-4 block, he simply did not pay attention to two, and one was a disappointment.

88. Terwilliger testified that:

- “I didn’t really pay attention” to Houston American’s interest in the 103,000 acre Las Garzas concession, where resource engineers retained by Houston American’s partner estimated recovery rates to be as low as 177 BAF;

- “I really wasn’t paying attention to” Houston American’s interest in the 47,950 acre La Cuerva concession, where resource engineers retained by Houston American’s partner estimated recovery rates to be as low as 183 BAF; and

- “We had high hopes for the [70,343 acre] Leona Block. It didn’t work out. And as a result, we got a well with recoveries a little over 200 barrels per acre foot. We would have liked 500. . . .” Resource engineers retained by Houston American’s partner estimated recovery rates on the Leona Block to be as low as 117 BAF.

89. Accordingly, Houston American’s and Terwilliger’s decision to triple the Operator’s estimates to conform to his “hopes,” rather than to data and information about the CPO-4 block itself, intentionally or recklessly distorted the nature and extent of the Operator’s evaluation and of Houston American’s actual experience in the Llanos Basin.
Houston American’s and Terwilliger’s Assertions That the Putative Reserves Were Worth Between $20 and $25 Per Barrel “In the Ground” Were Not Reasonably Based In Fact

90. Terwilliger’s assertion that the putative reserves on the CPO-4 block were worth between $20 and $25 “in the ground”—which assertion was reflected in Terwilliger’s own statements as well as in the statements of Houston American’s agents and other third parties—lacked a reasonable basis in fact. Terwilliger admitted as much during the Division’s investigation, when he testified under oath that such a valuation was “totally incorrect” because it described a valuation for proved reserves, and there were no proved reserves on the CPO-4 block.

91. Terwilliger and Houston American, as well as their agents, paired misleading statements about the value of the oil “in the ground” with misleading statements about the reserves on the CPO-4 block in support of their misleading claim that the CPO-4 block was worth more than $100 per share to Houston American.

92. An oil and gas reserve engineer retained by Houston American in connection with the Division’s investigation made a similar admission in a report submitted to the Commission staff, which stated that “possible reserves were valued at averages ranging from $0.65 to $2.23 per barrel.”

Subsequent History

93. In the course of Houston American’s promotional efforts, the price of its common stock increased from close to $4 per share to more than $20 per share. In April 2010, two blog posts raised questions about the integrity of Houston American’s management and the validity of its estimates. Houston American’s stock price promptly fell to $14 per share and, over the next two weeks, it reached a low of approximately $9.00 per share.

94. Since 2010, the Operator and Houston American drilled three non-productive wells on the CPO-4 block, and Houston American’s share price has since fallen to approximately $0.40 per share.

95. On March 28, 2013, Houston American announced that it was withdrawing from its farm-in agreement and transferring its interest in the CPO-4 block back to the Operator. In exchange, the Operator released Houston American from past and future funding obligations for the CPO-4 block. Houston American’s press statement quoted Terwilliger as stating that “[w]hile the [CPO-4 block] offered exciting potential for Houston American, the complexity and cost of drilling the prospects and the disappointing test wells clearly pointed our company in a different direction.”
96. Over the life of the project, Houston American raised and spent more than $20 million to fund its share of expenses on the CPO-4 block without producing a single barrel of oil.

97. Between 2010 and 2012, Terwilliger received cash bonuses of $914,287, stock awards of $247,800, and options valued at $177,049, in addition to a total salary of $1,043,083.

98. During the relevant period, Terwilliger’s shares were pledged as collateral on a margin account maintained at Morgan Stanley Smith Barney. In April 2012, Terwilliger sold 985,519 shares for $1,816,509, at an average price of $1.84 per share in order to cover margin calls on the account.

**VIOLATIONS**

99. As a result of the conduct described above, Terwilliger and Houston American violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities.

100. Section 20(b) of the Exchange Act makes it unlawful for any person, directly or indirectly, to do any act or thing which it would be unlawful for such person to do under the Exchange Act or any rule or regulation thereunder through or by means of any other person.

101. As a result of the conduct described above, Terwilliger and Houston American acted through or by means of other persons to make material misstatements and omissions, and as a result, violated Section 20(b) and 10(b) of the Exchange Act, and Rule 10b-5 thereunder.

102. As a result of the conduct described above, Terwilliger caused Houston American’s violations of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder and Section 17(a) of the Securities Act.

**IV.**

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents’ Offer.

Accordingly, pursuant to Section 8A of the Securities Act and Section 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondents cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, and cease and desist from committing or causing any violations and any future violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, including committing or causing any such violations directly or
A. Indirectly through or by means of any other person, as prohibited by Section 20(b) of the Exchange Act.

B. Respondent Terwilliger is prohibited for a period of five (5) years from the date of this Order from serving or acting as an officer or director of any issuer that has a class of securities registered pursuant to Section 12 of the Exchange Act or that is required to file reports pursuant to Section 15(d) of the Exchange Act.

C. Respondent Terwilliger shall, within ten (10) business days of the entry of this Order, pay a civil money penalty in the amount of $150,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717.

D. Respondent Houston American shall, within ten (10) business days of the entry of this Order, pay a civil money penalty in the amount of $400,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717.

E. Payment must be made in one of the following ways:

1. Respondents may make direct payments from a bank account via Pay.gov through the SEC website at http://www.sec.gov/about/offices/ofm.htm; or

2. Respondents may pay by certified check, bank cashier’s check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

   Enterprise Services Center
   Accounts Receivable Branch
   HQ Bldg., Room 181, AMZ-341
   6500 South MacArthur Boulevard
   Oklahoma City, OK 73169

F. Payments by check or money order must be accompanied by a cover letter identifying the payee as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Gerald Hodgkins, Associate Director, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-6010.

G. The Commission will hold funds paid in this proceeding in an account at the United States Treasury pending a decision whether the Commission, in its discretion, will seek to distribute funds or, in accordance with Exchange Act Section 21F(g)(3), transfer them to the general fund of the United States Treasury. The Commission may distribute civil money penalties collected in this proceeding if, in its discretion, the Commission orders the establishment of a Fair Fund (“Fair Fund distribution”) pursuant to 15 U.S.C. § 7246, Section 308(a) of the Sarbanes-
Oxley Act of 2002, as amended. Regardless of whether a Fair Fund is created, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents’ payment of a civil penalty in this action (“Penalty Offset”). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission’s counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

H. It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Terwilliger, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Terwilliger under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Terwilliger of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary